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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2020.

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-38877

Yunji Inc.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

15/F, South Building
Hipark Phase 2, Xiaoshan District
Hangzhou, Zhejiang, 310000
People's Republic of China
(Address of principal executive offices)

Chengqi Zhang, Vice President of Finance
15/F, South Building
Hipark Phase 2, Xiaoshan District
Hangzhou, Zhejiang, 310000
People's Republic of China
Phone: +86-571-8168 8947
Email: zhangcq@yunjiglobal.com

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

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange On Which Registered</u>
American depositary shares, each American depositary share representing ten Class A ordinary shares Class A ordinary shares, par value US\$0.000005 per share* * Not for trading, but only in connection with the listing on the Nasdaq Global Market of American depositary shares.	YJ	The Nasdaq Stock Market LLC (The Nasdaq Global Market)

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

None
(Title of Class)

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

None
(Title of Class)

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

As of December 31, 2020, there were 2,133,265,412 ordinary shares outstanding, par value US\$0.000005 per share, being the sum of 1,183,305,412 Class A ordinary shares (excluding treasury shares), par value US\$0.000005 per share and 949,960,000 Class B ordinary shares, par value US\$0.000005 per share.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

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

- “ADRs” are to the American depositary receipts which may evidence the ADSs;
- “ADSs” are to the American depositary shares, each of which represents ten Class A ordinary shares;
- “buyer” in a given period are to a user who places at least one order on our platform during such period, regardless of whether any product in such order is ultimately sold or delivered or whether any product in such order is returned;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “Class A ordinary shares” are to our Class A ordinary shares of par value US\$0.000005 per share;
- “Class B ordinary shares” are to our Class B ordinary shares of par value US\$0.000005 per share;
- “GMV” are to the total value of all orders for merchandise placed in our merchandise business and marketplace business, including the value of the merchandise sold as part of the membership packages, as well as the VAT and tax surcharges paid, regardless of whether the merchandises are returned and without taking into consideration any discounts and incentives. GMV includes the value from orders placed on our mobile apps as well as orders placed on third-party mobile apps and websites that are fulfilled by us, by our third-party merchants, or by our third-party business partners. Our revenues recognized on a gross basis are net of the VAT and related tax surcharges paid, discounts and incentives, the value of the merchandises returned, and any adjustments due to the timing difference between shipping and receipt, which are included in the above GMV measure. Our revenues recognized on a net basis are net of the corresponding amount to be paid to the vendor, the principal in the transaction, in addition to the items mentioned above, which are included in the above GMV measure.;
- “Jishang Preferred” are to Zhejiang Jishang Preferred E-Commerce Co., Ltd.;
- “member” are to an individual who registers an account on our flagship *Yunji* app and satisfies certain requirements such as purchasing a membership package or meeting certain other requirements;
- “ordinary shares” are to our ordinary shares, par value US\$0.000005 per share;
- “our VIEs” are to (i) Yunji Sharing Technology Co., Ltd., or Yunji Sharing, (ii) Zhejiang Yunji Preferred E-Commerce Co., Ltd., or Yunji Preferred, (iii) Hangzhou Chuanchou Network Technology Co., Ltd., or Hangzhou Chuanchou, and (vi) Hangzhou Fengjing Network Technology Co., Ltd., or Hangzhou Fengjing;
- “our WFOE” are to Hangzhou Yunchuang Sharing Network Technology Co., Ltd. or Yunchuang Sharing;
- “repeat purchase rate” in a given period are calculated as the number of transacting members who purchased not less than twice divided by the total number of transacting members during such period;
- “RMB” and “Renminbi” are to the legal currency of China;
- “SPUs” are to standard product units offered on our platform. The number of SPUs does not represent the number of distinct products offered on our platform. We assign the same SPU to the same type of product without distinguishing product specifics such as colors and sizes;
- “transacting member” in a given period are to a member who successfully promotes our products to generate at least one order or places at least one order on our platform, regardless of whether any product in such order is ultimately sold or delivered or whether any product in such order is returned;

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- “US\$,” “U.S. dollars,” “\$,” and “dollars” are to the legal currency of the United States;
- “users” are to individuals who access our platform through our mobile apps or sharing interfaces, including our members;
- “Yunji,” “we,” “us,” “our company” and “our” are to Yunji Inc., our Cayman Islands holding company and its subsidiaries, its consolidated variable interest entities and the subsidiaries of the consolidated variable interest entities; and
- “Zhejiang Jiyuan” are to Zhejiang Jiyuan Network Technology Co., Ltd.

Our reporting currency is the Renminbi because our business is mainly conducted in China and all of our revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report are made at a rate of RMB6.5250 to US\$1.00, the exchange rate in effect as of the end of December 31, 2020, as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that relate to our current expectations and views of future events. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act 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 mission, goals and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the online retail industry in China;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with our members, users, suppliers, third-party merchants and other partners;
- 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. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Item 3. Key Information–D. Risk Factors,” “Item 4. Information on the Company–B. Business Overview,” “Item 5. Operating and Financial Review and Prospects,” and other sections in this annual report. You should read thoroughly 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 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 online 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 the ADSs. In addition, the rapidly evolving nature of this 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 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

The following tables present the selected consolidated financial information for our company. The selected consolidated statements of operations data for the years ended December 31, 2018, 2019 and 2020, selected consolidated balance sheets data as of December 31, 2019 and 2020 and selected consolidated cash flows data for the years ended December 31, 2018, 2019 and 2020 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statement of operations data for the fiscal year ended December 31, 2016 and 2017, the selected consolidated balance sheet data as of December 31, 2016, 2017 and 2018 and the selected consolidated cash flow data for the year ended December 31, 2016 and 2017 are derived from our audited consolidated financial statements not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for per share data)						
Consolidated Statements of Operations Data:						
Revenues:						
Sale of merchandise, net	1,129,053	5,912,109	11,388,425	10,548,322	4,829,397	740,138
Membership program revenue	155,391	510,818	1,552,437	776,839	42,438	6,503
Marketplace revenue	—	—	—	311,914	599,895	91,938
Other revenues	—	21,144	74,363	34,949	58,527	8,970
Total revenues	1,284,444	6,444,071	13,015,225	11,672,024	5,530,257	847,549
Operating cost and expenses⁽¹⁾:						
Cost of revenues	(978,688)	(5,172,842)	(10,706,596)	(9,249,474)	(3,939,997)	(603,830)
Fulfilment	(184,407)	(569,410)	(1,162,051)	(965,883)	(450,104)	(68,981)
Sales and marketing	(138,046)	(707,735)	(955,128)	(1,187,462)	(806,140)	(123,546)
Technology and content	(18,207)	(58,159)	(143,645)	(315,167)	(202,817)	(31,083)
General and administrative	(12,153)	(50,153)	(147,208)	(277,487)	(261,877)	(40,135)
Total operating cost and expenses	(1,331,501)	(6,558,299)	(13,114,628)	(11,995,473)	(5,660,935)	(867,575)
Other operating income ⁽²⁾	—	—	7,048	68,646	33,218	5,091

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Loss from operations	(47,057)	(114,228)	(92,355)	(254,803)	(97,460)	(14,935)
Financial income/(loss), net	154	11,564	46,068	121,370	(8,571)	(1,314)
Foreign exchange gain/(loss), net	1,525	(7,444)	(685)	(12,397)	(919)	(141)
Change in fair value of warrant liabilities	160	152	—	—	—	—
Other non-operating income/(loss), net	—	894	—	8,497	(1,610)	(247)
Loss before income tax expense, and equity in income of affiliates, net of tax	(45,218)	(109,062)	(46,972)	(137,333)	(108,560)	(16,637)
Income tax benefit/(expense)	20,550	3,331	(12,346)	16,720	(39,298)	(6,022)
Equity in income/(loss) of affiliates, net of tax	—	7	2,992	(3,221)	(3,834)	(586)
Net loss	(24,668)	(105,724)	(56,326)	(123,834)	(151,692)	(23,245)
Less: net income/(loss) attributable to non-controlling interests shareholders	—	—	3,362	1,928	(5,346)	(819)
Net loss attributable to Yunji Inc.	(24,668)	(105,724)	(59,688)	(125,762)	(146,346)	(22,426)
Accretion on convertible redeemable preferred shares to redemption value	(77,179)	(1,628,656)	(2,187,633)	(1,532,013)	—	—
Re-designation to Series A convertible redeemable preferred shares from Initial Ordinary Shareholders' contribution, including beneficial conversion feature	—	—	(60,796)	—	—	—
Deemed dividend from preferred shareholders	132	—	107	—	—	—
Net loss attributable to ordinary shareholders	(101,715)	(1,734,380)	(2,308,010)	(1,657,775)	(146,346)	(22,426)
Net loss per share attributable to ordinary shareholders						
Basic	(0.08)	(1.37)	(1.98)	(0.91)	(0.07)	(0.01)
Diluted	(0.08)	(1.37)	(1.98)	(0.91)	(0.07)	(0.01)
Net loss per ADS⁽³⁾:						
Basic and diluted	(0.01)	(0.14)	(0.20)	(0.09)	(0.01)	(0.00)
Weighted average number of ordinary shares used in computing net loss per share:						
Basic and diluted	<u>1,268,000,000</u>	<u>1,268,000,000</u>	<u>1,165,136,438</u>	<u>1,818,487,917</u>	<u>2,125,906,398</u>	<u>2,125,906,398</u>

Notes:

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

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	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$	
	(in thousands)					
Sales and marketing	—	144	3,192	29,884	12,362	1,792
Technology and content	—	98	4,434	10,562	8,887	1,288
General and administrative	—	1,545	41,932	79,011	71,777	10,403
Fulfillment	—	221	4,742	8,740	5,352	776
Total	—	2,008	54,300	128,197	98,378	14,259

- (2) Starting from 2020, we present government grants, which are received from local government to support and reward our ongoing business and operations, as other operating income instead of other non-operating income/(loss), net. The relevant item in the prior year periods of RMB 7,048 and RMB 43,599 for the year ended December 31, 2018 and 2019, respectively, are also reclassified from other non-operating income/(loss), net to other operating income, to be in conformity with the presentation for the year ended December 31, 2020.
- (3) Each ADS represents ten Class A ordinary shares.

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	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	287,107	328,741	1,519,146	883,369	1,063,900	163,050
Short-term investments	33,000	663,780	1,099,394	774,736	134,146	20,559
Inventories, net	97,443	332,778	675,543	428,322	135,245	20,727
Prepaid expenses and other current assets	80,724	226,098	410,439	567,432	410,423	62,899
Total assets	540,526	1,673,161	3,918,799	3,302,199	2,550,481	390,878
Accounts payable	158,790	770,025	1,432,274	741,959	501,549	76,866
Deferred revenue	112,295	323,551	546,975	181,828	50,951	7,809
Incentive payables to members	81,270	239,840	421,945	384,486	312,170	47,842
Refund payable to members	77,652	147,943	396,024	26,883	4,398	674
Other payable and accrued liabilities	35,899	81,377	197,962	349,111	280,586	43,002
Total liabilities	470,817	1,671,064	3,115,206	1,837,540	1,235,613	189,366
Total mezzanine equity	255,938	1,920,698	4,914,048	—	—	—
Total shareholders' (deficit)/equity	(186,229)	(1,918,601)	(4,110,455)	1,464,659	1,314,868	201,512
Total liabilities, mezzanine equity and shareholders' (deficit)/equity	540,526	1,673,161	3,918,799	3,302,199	2,550,481	390,878

	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Summary Consolidated Cash Flow Data:						
Net cash generated from/(used in) operating activities	119,538	699,582	883,037	(1,116,816)	(261,514)	(40,075)
Net cash generated from/(used in) investing activities	3,002	(644,992)	(458,047)	(115,483)	551,015	84,443
Net cash generated from/(used in) financing activities	123,915	26,255	747,921	623,406	(13,876)	(2,127)
Effect of exchange rate changes on cash and cash equivalents	6,367	(10,911)	34,594	11,390	(53,624)	(8,217)
Net increase/(decrease) in cash, cash equivalents and restricted cash	252,822	69,934	1,207,505	(597,503)	222,001	34,024
Cash, cash equivalents and restricted cash at beginning of the year	34,985	287,807	357,741	1,565,246	967,743	148,313
Cash, cash equivalents and restricted cash at end of the year	287,807	357,741	1,565,246	967,743	1,189,744	182,337

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We regularly review a number of metrics, including the key metrics listed below, to evaluate our business, measure our performance, formulate financial projections, and make operating and strategic decisions:

	For the Year Ended December 31,				
	2016	2017	2018	2019	2020
Buyers (in millions)	2.5	16.9	23.2	22.5	17.4
Transacting members (in millions)	0.6	2.3	6.1	9.6	13.3
Orders fulfilled under merchandise sales business (in millions)	13.5	75.8	153.4	166.6	113.2
Orders fulfilled under marketplace business (in millions)	—	—	—	34.6	65.8

	As of December 31,				
	2016	2017	2018	2019	2020
Cumulative members (in millions)	0.9	2.9	7.4	13.8	23.8

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business and Industry

Our limited operating history makes it difficult to evaluate our business and prospects. We have experienced revenue declines in recent years, and we cannot guarantee that we will be able to resume and maintain revenue growth in the future.

We commenced operations in 2015, and have a limited operating history. Our total revenues decreased from RMB13,015.2 million in 2018 to RMB11,672.0 million in 2019 and further to RMB5,530.3 million (US\$847.5 million) in 2020. The decreases in total revenues in 2019 and 2020 were primarily due to decreases in revenues from sales of merchandise in each period as a result of continual increases in the proportion of our business contributed from our marketplace business platform, which was launched in the first quarter of 2019, whereby third-party merchants can sell products on our platform and pay us commissions on their sales. Revenues generated under the marketplace business are recognized on a net basis, while revenues generated under our merchandise sales business are recognized on a gross basis. Our historical performance may not be indicative of our future growth or financial results. We have experienced revenue declines in recent years, and we cannot guarantee that we will be able to resume and maintain revenue growth in the future. Our growth may slow down or become negative, and revenues may continue to decline for a number of possible reasons, some of which are beyond our control, including decreasing consumer spending, increasing competition, declining growth of our overall market or industry, the emergence of alternative business models, changes in rules, regulations, government policies or general economic conditions. It is difficult to evaluate our prospects, as we may not have sufficient experience in addressing the risks to which companies operating in rapidly evolving markets may be exposed. If our growth rate declines, investors' perceptions of our business and prospects may be materially and adversely affected and the market price of the ADSs could decline. You should consider our prospects in light of the risks and uncertainties that companies with a limited operating history may encounter.

If we fail to maintain membership loyalty or sustain membership growth, or fail to maintain member relationships effectively and retain existing members, our business and operating results may be materially and adversely affected.

We are a membership-based social e-commerce platform and therefore membership loyalty and growth are essential to our business. The cumulative number of our members reached approximately 23.8 million as of December 31, 2020. The growth of our business depends on our ability to maintain and increase the number of members on our platform and improve the level of their engagement. Previously, a user had to purchase a membership package in order to become a member and enjoy membership benefits. In order to stimulate our users' interest in transacting on our platform and attract more members, in 2019, we provided each non-member user with a free three-month experiential period during which time the user had access to the full spectrum of membership benefits. After the three-month experiential period, the user could become our member if he or she met a certain cumulative spending threshold or certain other requirements during the experiential period or if he or she purchased one of our membership packages. Starting in January 2020, we further refined our membership enrollment system by allowing any user to become a member and enjoy membership benefits free of charge for one year by simply registering for an account on the Yunji app. If the user meets a certain cumulative spending threshold or certain other requirements during the initial one-year period, the user may extend his or her membership for an extra year. We have ceased allowing users to become members free of charge since April 1, 2021. We currently require new users and renewing members to pay an annual membership fee to become or continue as a member and enjoy membership benefits. In addition, current members who became members through purchasing a membership package are now referred to as our diamond members and enjoy free lifelong membership and membership benefits. Other current members could also become diamond members if they spend RMB398 or more by the earlier of (i) the expiration date of their current membership and (ii) December 31, 2021. Our recent change in membership system may not be well received by our members and may negatively impact membership loyalty and growth and result in a decline in the level of engagement of our members. Damage to our reputation or our failure to anticipate needs of and provide value-added services to our members, among other things, could also diminish membership loyalty and reduce activity of members on our platform, which could cause our revenue and operating income to decline and negatively impact our profitability.

Our membership growth depends on existing members to promote our products and invite new members through their social networks. Our members may decide not to promote our products or invite new members at any time. To increase our revenue, we must increase the number of, or level of activity of, our members. However, we may not be able to accurately predict how the number and level of activity of members may fluctuate, because we outsource provision of member services to third-party service companies. We work with third-party service companies and enter into agreements with them on an annual basis or for a longer term. These third-party service companies select service managers based on the standards we provide in our agreements and they hire, train and compensate service managers to provide training to our members. However, we cannot guarantee service managers selected by these third-party service companies will provide satisfactory performance. If the service managers fail to motivate our members or facilitate members' product sales, we may lose our existing members and the level of activity of members may reduce on our platform. Service managers may voluntarily terminate their contracts with third-party service companies at any time. The loss of service managers or the loss of a significant number of members for any reason, could negatively impact our business operations and impair our ability to attract new members. In addition, if our existing and new business opportunities and incentives, products, services and other initiatives do not generate sufficient enthusiasm and economic incentive to retain our existing members or attract new members on a sustained basis, our operating results could be adversely affected. As a result, in order to maintain our business growth in the future, we need to increase our retention of existing members and continue to successfully attract additional members.

If we fail to anticipate user needs and provide products and services attractive to users, or fail to adapt our services or business model to changing user needs, emerging industry standards or rapid technological evolution, or fail to provide products at a satisfactory quality to our users, our business may be materially and adversely affected.

The e-commerce market in which we operate and user needs and preferences are constantly evolving. As a result, we must continuously respond to changes in the market and user demand and preferences to remain competitive, grow our business and maintain our market position. We intend to further diversify our product and service offerings to contribute to our revenue sources in the future. We launched our marketplace business in the first quarter of 2019 whereby third-party merchants can sell products on our platform and pay us commissions on their sales. New products and services, new types of customers or new business models may involve risks and challenges we do not currently face. We continually introduce new sales format on our platform to improve user engagement and our productivity. Any new initiatives may require us to devote significant financial and management resources and may not perform as well as expected. Furthermore, we may have difficulty in anticipating user demand and preferences, and the products offered on our platform may not be accepted by the market or be rendered obsolete or uneconomical. Therefore, any inability to adapt to these changes may result in a failure to capture new members and other users or retain existing members and other users, the occurrence of which would materially and adversely affect our business, financial condition and results of operations. In addition, if we are unable to provide products to users at a satisfactory quality, in a timely manner, in sufficient quantities or at an acceptable cost, our business could be negatively impacted. We may also be subject to claims if our users are not satisfied with the quality of the products or do not have satisfactory experiences in general.

In addition, to remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our platform. The internet and the e-commerce markets are characterized by rapid technological evolution, changes in user requirements and preferences, frequent introductions of new products, features 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 and adapt to new technologies useful in our business, and respond to technological advances and emerging industry standards and practices, in particular with respect to mobile internet, in a cost-effective and timely way. We cannot assure you that we will be successful in these efforts.

We will not be able to exert the same level of influence or control over members and service managers as we could if they were our employees, and we may be subject to significant costs and reputational harm in the event our members violate any laws or regulations applicable to our operations.

Members and service managers, most of whom are also our members, are not our employees and do not enter into any employment contracts with us. Accordingly, we are not in a position to provide the same level of control over and oversight of members and service managers as we would if they were our employees. However, our members play an important role in promoting our products and inviting new members to our platform, including promoting our products via live streaming sessions under the “Endorsement” section of our Yunji app, on our Yunji Endorsement app and through our official account on other live streaming platforms. Some members also interact frequently with the users in their social network regarding our products and platform. Therefore, such users may associate the members with us and hold us accountable for any misconduct by our members. Also, service managers provide services to our members and communicate with them on a regular basis. The members they serve may view us as vicariously liable for any misconduct by service managers. We may be subject to lawsuits or reputational harm if, for example, a member misrepresents the functionality or provides inaccurate information of our products through the member’s social network or via the live streaming sessions they host, or a member or service manager conducts any wrongdoings or otherwise violates applicable laws. While we have implemented policies and procedures designed to govern conduct of our members to comply with the regulatory regime in China and protect our goodwill, including content control policies and live streaming standards, and the third-party service companies have adopted policies to regulate the conduct of the service managers, there can be no assurance that members or service managers will comply with the policies and procedures. Violations by members or service managers of applicable law or of the policies and procedures could reflect negatively on our products and operations and harm our business reputation. While we have not experienced any significant problems affecting our products, operations or business reputation caused by violations by members or service managers of the policies and procedures, we cannot assure you that we will not face such problems in the future.

Any harm to our Yunji brand or reputation may materially and adversely affect our business and results of operations.

We believe that the recognition and reputation of our Yunji (云集) brand among our members, other users, suppliers, third-party merchants and other third-party service providers and partners 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 and may negatively impact our brand if not properly managed. These factors include our ability to:

- provide a superior shopping experience to our users;
- maintain and grow our member and user base and keep our community, members and other users highly engaged;
- maintain the popularity, attractiveness, diversity, quality and authenticity of our product offerings;
- maintain the efficiency, reliability and quality of our fulfillment services to our users;
- maintain or improve users’ satisfaction with our after-sale services;
- increase brand awareness through marketing and brand promotion activities; and
- preserve our reputation and goodwill in the event of any negative publicity on customer service, product quality, price or authenticity, data privacy and security, our industry and other players within the industry or other issues affecting us or other social e-commerce and e-commerce businesses in China.

Public perception that non-authentic, counterfeit or defective goods are sold on our platform or that we or third-party service providers do not provide satisfactory customer service, even if factually incorrect or based on isolated incidents, 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 users or retain our current users. If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our platform, products and services, it may be difficult to maintain and grow our member and user base, and our business and growth prospects may be materially and adversely affected.

If our business model were found to be in violation of applicable laws and regulations, our business, financial condition and results of operations would be materially and adversely affected.

In August 2005, the State Council promulgated the Regulations on the Prohibition of Pyramid Selling, which prohibits individuals and entities in China from engaging in pyramid selling. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Pyramid Selling in the PRC.” In May 2017, we received a formal notice from the local Administration for Market Regulation in Hangzhou, which ruled that our sales and marketing practice prior to February 2016 violated the Regulations on the Prohibition of Pyramid Selling and imposed a fine of approximately RMB9.6 million (US\$1.4 million). Since the early stage of our operations in 2015, the local governmental authorities in Hangzhou had been in discussion with us on potential violation by our then-existing business model of the Regulations on the Prohibition of Pyramid Selling, and we have adjusted our business practices since February 2016 to comply with the Regulations on the Prohibition of Pyramid Selling and other applicable regulations. We fully paid the fine in June 2017. In December 2018, we and Han Kun Law Offices, our PRC legal counsel, consulted with the competent government authority in Hangzhou, the district branch of the State Administration for Market Regulation, or the SAMR, having direct jurisdiction over our PRC entities that currently operate our membership-based social e-commerce platform, and the government authority verbally confirmed that these entities have conducted their business operations lawfully and none of these entities are in violation of the Regulations on the Prohibition of Pyramid Selling or any other applicable laws. Based on our discussion with the competent government authorities and the advice of Han Kun Law Offices, we believe that our current business model is not in violation of applicable PRC laws and regulations, including the Regulations on the Prohibition of Pyramid Selling. However, there is no assurance that the competent governmental authorities in China that we communicated with will not change their views, or the other relevant government authorities will share the same view as our PRC legal counsel, or they will find our business model not in violation of any applicable regulations, given the uncertainties in the interpretation and application of existing PRC laws, regulations and policies relating to our current business model, including, but not limited to, regulations regulating pyramid selling. Moreover, new laws, regulations or policies may also be promulgated in the future, and there is no assurance that our current business model will be in full compliance with the new laws, regulations or policies. If our business model were to be found in violation in the future, we will have to make adjustment to our business model or cease certain of our business operations, and the relevant governmental authorities may confiscate any illegal gains and impose a fine, which would have a material and adverse impact on our business, financial condition and results of operations.

Any change, disruption or discontinuity in the features and functions of major social networks in China could severely limit our ability to continue growing our member and user base, and our business may be materially and adversely affected.

Our success depends on our ability to attract and retain new members and other users and expand our member and user base. We leverage social networks in China as a tool for member and user acquisition and engagement. For example, we leverage social networks, such as WeChat, QQ and Weibo, to enable members to share product information and their experiences with products on our platform to their friends, family and other social contacts, who can purchase such products directly via the links shared by the members through social networks. A substantial portion of our member and user traffic comes from such member recommendation through social networks. To the extent that we are banned from using some or all functions of such social networks, or fail to leverage such social networks, our ability to attract or retain members and other users, and maintain an active community may be severely harmed. If WeChat, QQ or Weibo changes its functions or support, such as charging fees for functions or support that is currently provided for free, or stops offering its functions or support to us or discontinues its functions or support in general, we may not be able to locate alternative platforms of similar scale to provide similar functions or support in a timely manner, or at all. Furthermore, we may fail to establish or maintain relationships with additional social network operators to support the growth of our business on economically viable terms, or at all. Any interruption to or discontinuation of our relationships with major social network operators may severely and negatively impact our ability to continue growing our user base, and any occurrence of the circumstances mentioned above may have a material adverse effect on our business, financial condition and results of operations.

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

The e-commerce industry in China is intensely competitive. We compete to attract, engage and retain members, other users, orders, suppliers, third-party merchants and other participants on our platform. Our current or potential competitors include all major e-commerce companies in China and other internet companies in China that engage in social e-commerce businesses. See “Item 4. Information on the Company—B. Business Overview—Competition.”

Our current or potential competitors may have longer operating histories, greater brand recognition, better relationships with supplier and third-party merchants, larger customer bases, higher user activity and loyalty or greater financial, technical or marketing resources than we do. Our competitors may leverage their brand recognition, experience and resources to compete with us in a variety of ways, including making investments and acquisitions for the expansion of their product and service offerings. Some of our competitors may be able to secure more favorable terms from suppliers and third-party merchants, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies and devote substantially more resources to their IT systems and technology than us. In particular, some of these competitors have substantially greater financial resources that may allow them to initiate and sustain aggressive price competition and we experience increased competition when our competitors offer discounts or clearance sale for various reasons. If we are unable to offer products on our platform at competitive prices, we may experience increased negative pressure on pricing for our products and loss of users. Some of our competitors may also utilize social networks to attract users, which may divert traffic or attention of our potential users. In addition, new and enhanced technologies may increase the competition in the e-commerce industry. Increased competition may reduce our profitability, market share, user base and brand recognition. We cannot assure you that we will be able to compete successfully against current or future competitors, and competitive pressures may have a material and adverse effect on our business, financial condition and results of operations.

Any disruption to our IT systems could materially affect our ability to maintain the satisfactory performance of our IT systems and deliver consistent services to our users.

The proper functioning of our IT systems is essential to our business. The satisfactory performance, reliability and availability of our IT systems are critical to our success, our ability to attract and retain members and other users and our ability to maintain and deliver consistent services on our platform. However, our technology infrastructure may fail to keep pace with increased sales on our platform, in particular with respect to our new product and service offerings or in association with traffic and order surges during promotional events and holiday seasons, and therefore our users may experience delays as we seek to source additional capacity, which would adversely affect our results of operations as well as our reputation.

Additionally, we must continue to upgrade and improve our technology infrastructure to support our business growth. However, we cannot assure you that we will be successful in executing these system upgrades, and the failure to do so may impede our growth. We currently use cloud services and servers operated by external cloud service providers to store our data, to allow us to analyze a large amount of data simultaneously and to update our user database and profiles quickly. Any interruption or delay in the functionality of these external cloud service and server providers may materially and adversely affect the operations of our business.

We may be unable to monitor and ensure high-quality maintenance and upgrade of our IT systems and infrastructure on a real-time basis, and users may experience service outages and delays in accessing and using our platform to place orders. In addition, we may experience surges in online traffic and orders associated with promotional activities and generally as we scale, which can put additional demand on our platform at specific times. Our technology or infrastructure may not function properly at all times. Any system interruptions caused by telecommunications failures, computer viruses, physical or electronic break-ins or other attempts to harm our systems could result in the unavailability or slowdown of our platform or reduced order fulfillment performance, which in turn could reduce the volume of products sold and the attractiveness of product offerings on our platform. Any of such occurrences could cause severe disruption to our daily operations. As a result, our reputation may be materially and adversely affected, our market share could decline and we could be subject to liability claims. In addition, in order to ensure that our technology infrastructure can be comprehensively and rapidly upgraded, we need to constantly enhance our technology. Otherwise, we face the risk of our technology infrastructure becoming unstable and susceptible to security breaches, which we may be unable to identify or rectify rapidly and effectively. Such instability or susceptibility could create serious challenges to the security and uninterrupted operation of our platform and services, which would materially and adversely affect our business and reputation.

We may face challenges in expanding our product offerings and optimizing our product mix.

Our platform carries a wide range of products including, among others, household goods, healthcare goods, cosmetics, apparel, bags and cases, food and beverage, childcare products, electronic appliances and fresh produce. Expansion into diverse new product categories and increase in number of products we offer involve new risks and challenges. Our lack of familiarity with these products and lack of relevant user data relating to these products may make it more difficult for us to anticipate user demand and preferences. We may misjudge user demand, resulting in inventory buildup 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. We may experience higher return rates on new products, receive more complaints from members and other users 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 have much purchasing power in new categories of products and we may not be able to negotiate favorable terms with suppliers and third-party merchants. We may need to price aggressively to gain market share or remain competitive in new categories. It may be difficult for us to achieve profitability in the new product categories and our profit margin for these new product categories, 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. In addition, some of our existing product categories may have lower profit margins than others, and failure to grow our existing product categories with higher profit margins may adversely impact our overall profitability and results of operations.

We have incurred net loss in the past and we may continue to experience losses in the future.

We incurred a net loss of RMB56.3 million, RMB123.8 million and RMB151.7 million (US\$23.2 million) in 2018, 2019 and 2020, respectively. In the year ended December 31, 2018, our operating cash flow was positive, but in the years ended December 31, 2019 and 2020, our operating cash flow was negative. We cannot assure you that we will be able to generate net profits or positive cash flow from operating activities in the future. Our ability to achieve and maintain profitability will depend in large part on our ability to, among other things, increase our number of members and other users, grow and diversify our supplier and third-party merchant base, and optimize our cost structure. We may not be able to achieve any of the above. We intend to continue to invest for the foreseeable future in the technology platform to support an even more carefully curated selection of products and to offer additional value-added services. As a result of the foregoing, we believe that we may incur net losses in the future.

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

We source products from third-party suppliers for our merchandise sales business. We also operate a marketplace business whereby third-party merchants sell products on our platform. As of December 31, 2020, we had 2,103 suppliers and third-party merchants on our platform. Our suppliers and third-party merchants include merchants of mainstream brands and emerging brands, and manufacturing partners we cooperate with. Maintaining strong relationships with these suppliers and third-party merchants is important to the growth of our business. In particular, we depend significantly on our ability to procure products from suppliers on favorable pricing terms and attract third-party merchants to offer their products on commercially attractive terms. We typically enter into one-year framework agreements with our suppliers and third-party merchants on an annual basis, and these framework agreements are typically renewed automatically on an annual basis unless either party chooses to discontinue the business relationship. Should any of our supplier or third-party merchant choose to discontinue their business relationship with us on existing terms, we cannot ensure the availability of products or the continuation of particular pricing practices or payment terms beyond the end of the contractual term. In addition, except in the case of our collaboration with certain top-quality emerging brands for the production of *Yunji* exclusive products, our agreements with suppliers and third-party merchants typically do not restrict them from selling products to others or on other platforms. We cannot assure you that our current suppliers and third-party merchants will continue to sell products to us or on our platform on commercially acceptable terms, or at all, after the term of the current agreement expires. Even if we maintain good relations with our suppliers and third-party merchants, their ability to supply products to us or on our platform in sufficient quantity and at competitive prices may be adversely affected by economic conditions, labor actions, regulatory or legal decisions, natural disasters or other causes.

In the event that we are not able to purchase products at favorable prices, our revenues and cost of sales may be materially and adversely affected. In the event any brand owner does not have authority from the relevant manufacturer to sell certain products to us or on our platform, such brand owner may cease selling such products to us or on our platform at any time. If our suppliers and third-party merchants cease to provide us with favorable payment terms, our need for working capital may increase and our operations may be materially and adversely affected. We will also need to establish new supplier and third-party merchant 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 and third-party merchants that would allow us to obtain a sufficient amount and variety of authentic and quality products on acceptable commercial terms, it may inhibit our ability to offer sufficient products sought by our users, or to offer these products at competitive prices. Any adverse developments in our relationships with suppliers and third-party merchants could materially and adversely affect our business and growth prospects. In addition, as part of our growth strategy, we plan to further expand our product offerings. If we fail to attract new suppliers and third-party merchants to sell their products to us or on our platform due to any reason, our business, growth and profitability prospects may be materially and adversely affected.

Our operations could be materially adversely affected if we fail to effectively manage our relationships with, or lose the services of, third-party manufacturing partners.

We rely on third-party manufacturing partners to manufacture our private label products. Our ability to grow revenues in the future will depend in part on our success in maintaining successful relationships with our manufacturing partners. As we do not enter into long-term contracts with third-party manufacturing partners, they may decide not to accept our future orders on the same or similar terms, or at all. If a manufacturing partner decides to substantially reduce its volume of supply to us or to terminate its business relationship with us, we may not be able to find a proper replacement in a timely manner, or at all. This may negatively impact our revenues and adversely affect our reputation, causing a material adverse effect on our financial condition, results of operations and prospects. In particular, a substantial portion of our GMV from private label products is generated from the sale of Solo Life (素野). If there is any adverse change to the nature of our relationship with the manufacturer of Solo Life or if the manufacturer of Solo Life decides to terminate its cooperation with us, the sale of our private label products and thus our results of operations may be negatively impacted. Moreover, some manufacturing partners may not fully comply with certain laws and regulations, such as consumer protection, labor and environmental laws. If any of our manufacturing partners is found to have violated laws and regulations in China, media reports on such violations may negatively affect our reputation and image, resulting in material adverse impact on our business, financial condition and results of operations. In addition, while we provide the designs of our products to the manufacturing partner, as well as guidance for manufacturing the products ordered by us, we do not have direct control over the manufacturing partners. If any of them is involved in unauthorized production and sale of goods using our brand name, our reputation, financial condition and results of operations may be materially adversely affected.

We and the third-party merchants in our marketplace business use third-party logistics service providers to deliver our orders. If these third-party logistics service providers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.

We and the third-party merchants in our marketplace business cooperate with a number of third-party logistics service providers to deliver products sold on our platform to end customers. Interruptions to or failures in these third parties' delivery services could prevent the timely or proper delivery of our products or may cause product damage or product loss during transit. These interruptions may be due to events that are beyond our control or the control of these third-party logistics companies, such as inclement weather, natural disasters, health epidemics, transportation disruptions or labor unrest. In addition, if our third-party logistics service providers 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 alternative third-party logistics 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 shut-down of the delivery companies we engage to make deliveries, especially those local companies with relatively small business scales. If our products are not delivered in proper condition or on a timely basis, our users may refuse to accept products purchased on our platform and lose confidence in our platform, and our business and reputation could suffer.

Furthermore, delivery personnel of contracted third-party logistics service providers act on our behalf and interact with our users personally. We need to effectively manage these third-party logistics service providers to ensure the quality of customer services. We have in the past received user complaints from time to time regarding our delivery and return and exchange services. Any failure to provide high-quality delivery services to our users may negatively impact the shopping experience of our users, damage our reputation and cause us to lose users.

Our marketplace business is subject to risks associated with third-party merchants.

As of December 31, 2020, there were 1,055 third-party merchants under our marketplace business. We do not have as much control over the storage and delivery of products sold on our online marketplace as we do over the products that we sell directly ourselves under our merchandise sales business. With the exception of third-party merchants outside of China for whom we handle the logistics and delivery process within China, our third-party merchants use their own facilities to store their products and their own or third-party delivery systems to deliver their products to our customers, which makes it more difficult for us to ensure that our customers get the same high-quality service for all products sold on our platform. If any third-party merchant does not control the quality of the products that it sells on our platform, or if it does not deliver the products or delivers them late or delivers products that are materially different from its description of them, or if it sells counterfeit or unlicensed products on our platform, or if it sells certain products without licenses or permits as required by the relevant laws and regulations even though we have requested such licenses or permits in our standard form agreement with third-party merchants, the reputation of our marketplace business and our *Yunji* brand may be materially and adversely affected and we could face claims that we should be held liable for any losses. Moreover, despite our efforts to prevent it, some products sold under our marketplace business may compete with the products we sell directly, which may cannibalize our merchandise sales business. In addition, the supplier relationships, customer acquisition dynamics and other requirements for our marketplace business may not be the same as those for our merchandise sales operations, which may complicate the management of our business. In order for our marketplace business to be successful, we must continue to identify and attract third-party merchants, and we may not be successful in this regard.

Failure to deal effectively with any fictitious transactions or other fraudulent conduct that take place under our marketplace business would materially and adversely affect our business, financial condition and results of operations.

We may face risks with respect to fraudulent activities under our marketplace business. Although we have implemented various measures to detect and reduce the occurrence of fraudulent activities within our marketplace business, there can be no assurance that such measures will be effective in combating fraudulent transactions or improving overall satisfaction among third-party merchants and customers. In addition to fraudulent transactions with legitimate customers, merchants may also engage in fictitious or “phantom” transactions with themselves or collaborators in order to artificially inflate their own ratings on our platform, reputation and search results rankings. This activity may harm other merchants by enabling the perpetrating merchant to be favored over legitimate merchants, and may harm our customers by deceiving them into believing that a merchant is more reliable or trusted than the merchant actually is. This activity may also result in inflated GMV from our marketplace business. Moreover, illegal, fraudulent or collusive activities by our employees could also subject us to liability or negative publicity. Although we have internal controls and policies with regard to the review and approval of sales activities and other relevant matters, we cannot assure you that such controls and policies will prevent fraud or illegal activity by our employees. Negative publicity and user sentiment generated as a result of actual or alleged fraudulent or deceptive conduct on our platform or by our employees would severely diminish consumer confidence in us, reduce our ability to attract new or retain current third-party merchants and customers, damage our reputation and diminish the value of our brand, and materially and adversely affect our business, financial condition and results of operations.

If we are unable to successfully manage our relationships with third-party service companies or third-party business process outsourcing companies (BPOs), we may lose service managers or customer service representatives, or fail to provide superior customer services, which could negatively affect our business and operations.

We maintain a limited number of our own employees for customer services and rely on third-party business process outsourcing companies (BPOs) for outsourced customer services. Our customer service center in Hefei, Anhui Province provides real-time assistance to our users and it had 349 outsourced customer service representatives as of December 31, 2020. These outsourced customer service representatives may not have the same level of commitment to our users or be as well-trained as our own employees and we have less control over the services provided by them than our own employees. We typically enter into service agreements with third-party BPOs on an annual basis or for a longer term. In the event that one or more of these third-party BPOs unexpectedly become unable or unwilling to provide some or all of these services to us, our own employees may not be able to provide the necessary range of customer services. If these outsourced customer service representatives fail to perform in accordance with the terms of our agreements with third-party BPOs or fail to provide satisfactory customer service, or if waiting times are too long due to the high volume of calls from users at peak times, we may fail to meet user expectations and our brand and user loyalty may be adversely affected. Any negative publicity or poor feedback regarding our customer service may harm our brand and reputation and in turn cause us to lose users and market share.

We outsource provision of member services to third-party service companies and they hire, train and compensate service managers at our request. Service managers enter into service contracts with third-party service companies and are not our employees. We currently work with three third-party service companies and enter into agreements with them on an annual basis or for a longer term. These third-party service companies select service managers based on the standards we provide in our agreements. While we may oversee the performance of service managers and request these third-party service companies to replace service managers that do not meet our standards, management of service managers through third parties may not be as timely and effective as were they our employees. If we are unable to enter into new agreements or extend existing agreements with these third-party service companies on terms and conditions acceptable to us, we may lose service managers. We may not be able to find alternative third-party service companies to provide similar services in a timely and reliable manner, or at all. Accordingly, our members may not receive sufficient training or support for promoting the products sold on our platform and they may become less motivated to promote our products via their social networks. Any termination of our arrangements with these third-party service companies, or their refusal to select service managers for us, could have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with the relatively new E-Commerce Law may have a material adverse impact on our business, financial conditions and results of operations.

As the e-commerce industry is still evolving in China, new laws and regulations may be adopted from time to time to address new issues that arise from time to time. For example, 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 generally provides that e-commerce operators must obtain administrative licenses if business activities conducted by the e-commerce operators are subject to administrative licensing requirements under applicable laws and regulations. In addition, the E-Commerce Law imposes a number of obligations on e-commerce platform operators, including the obligations: (i) to verify and register platform merchants, (ii) to ensure platform cybersecurity, including, but not limited to, data privacy, (iii) to ensure fair dealing and the legitimate rights and interests of consumers on the platform, (iv) to publicize transaction information preservation and transaction rules, and (v) to protect intellectual properties. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to E-Commerce” for further details. As the E-Commerce Law is relatively new, no detailed interpretation and implementation rules have been promulgated, and it remains uncertain how the E-Commerce Law will be interpreted and implemented. We cannot assure you that our current business operations satisfy the obligations provided under the E-Commerce Law in all respects. If the PRC governmental authorities determine that we are not in compliance with all the requirements proposed under the E-Commerce Law, we may be subject to fines and/or other sanctions.

In April 2021, SAMR, together with the Office of the Central Cyberspace Affairs Commission and the State Tax Bureau of China, held a meeting with more than 30 major platform operators, including us. All platform operators that participated in the meeting were required to conduct a self-inspection within one month to identify and correct possible violations of anti-monopoly, anti-unfair competition, tax and other related laws and regulations and submit their compliance commitments for public supervision. It is still uncertain how the requirement will be implemented and whether further legislation and administration activities will be entailed. As a result, we may incur additional costs and expenses, devote more management’s attention and allocate additional resources in the compliance with relevant laws and regulations. If we are required to take any rectifying or remedial measures or are subject to any penalty, our reputation and business operations may be materially and adversely affected.

The E-Commerce Law also imposes a requirement on operators of e-commerce platforms, such as our company, to assist in tax collection with respect to income generated by sellers from transactions conducted on e-commerce platforms, including, among others, submitting to the tax authority information on the identities of sellers on e-commerce platforms and other information relating to tax payment. Failure to comply with the requirement may result in operators of e-commerce platforms being subject to fines and, in severe circumstances, suspension of business operations of e-commerce platforms. Substantial uncertainties exist regarding the interpretation and implementation of the E-Commerce Law. We encourage and incentivize members to promote the products on our platform. If the members were deemed to be selling our products on consignment basis, the PRC tax authorities may require our members to make tax registration and request our assistance in these efforts, pursuant to the E-Commerce Law, and our members may be subject to more stringent tax compliance requirements. Due to the lack of detailed interpretation and implementation rules, we are in discussion, from time to time, with the relevant government authorities on how to comply with the requirements under the E-Commerce Law. The PRC government may adopt additional requirements from time to time, and we may be requested by tax authorities to provide further assistance in the enforcement of tax regulations, such as disclosure of transaction records and bank account information of the members, and withholding taxes for our members. If any of these were to occur, we may lose our existing members or fail to attract new members and the level of activity of members may reduce on our platform. We may also incur increased costs and expenses as a result. The tightened tax enforcement by PRC tax authorities in the e-commerce industry, such as imposition of reporting or withholding obligations on operators of e-commerce platforms with respect to tax payable of merchants on e-commerce platforms, may have a material and adverse effect on our business, financial condition and results of operations.

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

Our business, results of operations and financial condition depend in part on our ability to effectively manage our growth or implement our growth strategies. As part of our business strategies, we plan to further improve our technology platform and continue to optimize our product offerings. We also intend to continue to invest significant resources in training, managing and motivating our workforce. In addition, as we optimize our product offerings, we will need to work with new suppliers and third-party merchants efficiently and establish and maintain mutually beneficial relationships with our existing and new suppliers and third-party merchants. We may have limited or no experience for certain new product offerings, and our expansion into these new product offerings may not achieve broad user acceptance. In addition, these offerings may present new and difficult technological or operational challenges, and we may be subject to claims if our users are not satisfied with the quality of the products or do not have satisfactory experiences in general. To effectively manage the expected growth of our operations and personnel, we will need to continue to improve our transaction processing, technological, operational and financial systems, policies, procedures and controls. All these endeavors involve risks and will require significant managerial, financial and human resources. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully or that our new business initiatives will be successful. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

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 or content posted on our platform that infringe on third-party intellectual property rights, or for other misconduct.

We sourced our products from 1,048 suppliers as of December 31, 2020. Third-party merchants under our marketplace business are separately responsible for sourcing the products they sell on our platform. As of December 31, 2020, we had 1,055 third-party merchants on our online marketplace. We have been and may continue to be subject to allegations and lawsuits claiming that products sold or listed on our platform are counterfeit, unauthorized, illegal, or otherwise infringe third-party copyrights, trademarks and patents or other intellectual property rights, or that content posted on our user interfaces or shared by members through their social networks contain misleading or inaccurate information on description of products and comparable prices. Although we have adopted strict measures to protect us against these potential liabilities, including proactively verifying the authenticity and authorization of products sold on our platform through conducting offline investigations and immediately removing any counterfeit or illegal products or misleading information found on our platform, these measures may not always be successful or timely.

In the event that counterfeit, unauthorized or infringing products are sold on our platform or infringing or misleading content is posted on our platform, we could face claims or be imposed with penalties. We have in the past received claims alleging the sales of defective, counterfeit or unauthorized items on our platform. Irrespective of the validity of such claims, 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. Potential liabilities under PRC law for negligence in participating or assisting in infringement activities associated with counterfeit goods include 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. In addition, in the event that any of our suppliers or third-party merchants fail to obtain proper authorization to sell certain products to us or on our platform, they may be prevented from selling products to us or on our platform and we may become subject to claims or disputes alleging that some products are sold on our platform without proper authorization. Any of these events could have a material and adverse effect on our business, results of operations or financial condition.

Under our standard form agreements, we require suppliers and third-party merchants to indemnify us for any losses we suffer or any costs that we incur due to any products we source from these suppliers or any products sold by these third-party merchants. However, not all of our agreements with suppliers and third-party merchants have such terms, and for those agreements that have such 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 “—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies.”

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

The scale and business model of our merchandise sales business require us to manage a large volume of inventory effectively. We depend on our demand forecasts for various kinds of products to make purchase decisions and to manage our inventory. Demand for products, however, can change significantly between the time inventory is ordered and the date by which we hope to sell it. Demand may be affected by seasonality, new product launches, changes in product cycles and pricing, product defects, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our users may not order products in the quantities that we expect. In addition, when we begin selling a new product, it may be difficult to establish supplier relationships, determine appropriate product selection, and accurately forecast demand. The acquisition of certain types of inventory may require significant lead time and prepayment and they may not be returnable. We do not have the right to return unsold items to some of our suppliers.

Our net inventories have decreased in recent periods, from RMB675.5 million as of December 31, 2018 to RMB428.3 million as of December 31, 2019, and further to RMB135.2 million (US\$20.7 million) as of December 31, 2020. Our inventory turnover days were 17.0 days in 2018, 21.5 days in 2019 and 25.7 days in 2020. The decreases in net inventories in 2019 and 2020 are primarily due to portions of merchandise sales shifting to our marketplace business platform that launched in the first quarter of 2019 under which substantially all of the third-party merchants handle the procurement, storage and management of their own inventory. We may include more products in our inventory, which will make it more challenging for us to manage our inventory effectively and will put more pressure on our warehousing system.

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 margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. 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 missed sales, diminished brand loyalty and lost revenues, any of which could harm our business and reputation. Any of the above may materially and adversely affect our results of operations and financial condition.

Failure to successfully manage our fulfillment infrastructure or any interruption in the operation of the warehouse facilities for an extended period may negatively affect our business, prospects and results of operations.

We believe that our fulfillment infrastructure, consisting of strategically located warehouses, is essential to our success. Currently all of the warehouses we use are operated by third-party vendors over which we have limited control. We provide our operating standards under our operating agreements with third-party vendors and typically renew these agreements on an annual basis. Any decrease in the quality of service offered by these third-party vendors will adversely affect our reputation and business operations. The warehouse facilities may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, health epidemics, human error and other events. If any of the warehouse facilities were rendered incapable of operations, then we may be unable to fulfill our orders on a timely basis. For example, business operations at warehouse facilities could be disrupted if any of the employees working therein are suspected of being infected with a novel strain of coronavirus, now named as COVID-19, since it could require the employees to be quarantined and/or the facilities to be disinfected. 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.

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In the first quarter of 2019, we launched our marketplace business, allowing third-party merchants to sell their products on our platform and pay commissions on their sales to us. Unlike our merchandise sales business where we handle the fulfillment process for the products sold, substantially all of the third-party merchants under our marketplace business handle the fulfillment logistics for their products sold on our platform, thereby lessening the demand for expansion of our fulfillment infrastructure. We have started and will continue integrating and consolidating our warehouse facilities to enhance the efficiency in fulfilling orders placed from all areas in China under our merchandise sales business. Our fulfillment network is complex and challenging to manage. We may not be able to recruit a sufficient number of qualified employees in connection with managing our fulfillment infrastructure. In addition, the integration and consolidation of our fulfillment infrastructure may strain our managerial, financial, operational and other resources. If we fail to manage such integration and consolidation successfully, our business and results of operations may be materially and adversely affected.

We may not be able to recoup the investments we make to improve our technology capabilities.

We have invested and will continue to invest in upgrading our technology platform. We expect to continue to invest in our technology capabilities for a number of years. We also intend to continue to add resources to our technology platform as we focus on expanding our product selection and offering new services. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the 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 financial condition and results of operation.

If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.

The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in their respective annual reports. In addition, an independent registered public accounting firm for a public company may be required to issue an attestation report on the effectiveness of such company's internal control over financial reporting. We have been subject to such requirement starting from the fiscal year ended December 31, 2020.

In auditing our consolidated financial statements for the fiscal year ended December 31, 2018 and 2019, we and our independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting, in accordance with the standards established by the Public Company Accounting Oversight Board of the United States (PCAOB).

As defined in the standards established by the PCAOB, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses that had been identified relate to (i) our lack of sufficient financial accounting staff and management with appropriate levels of accounting knowledge and experience to address complex U.S. GAAP accounting issues and to prepare and review financial statements and related disclosures under U.S. GAAP and SEC reporting and compliance requirements and (ii) our lack of sufficient documented financial closing policies and procedures, especially those related to period end expenses cut-off and accruals. The material weaknesses, if not timely remediated, may lead to significant misstatements in our consolidated financial statements in the future.

Following the identification of the material weaknesses, we have taken measures to remedy the material weaknesses. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2020 after the remediation. For details on these measures, please see "Item 15. Controls and Procedures—Remediation of the Material Weaknesses in Internal Control over Financial Reporting Reported in 2018 and 2019." In addition, our independent registered public accounting firm has audited the effectiveness of our internal control over financial reporting as of December 31, 2020, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

In the future, our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report with adverse opinion 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.

If we fail to implement and maintain an effective internal control environment, we could suffer material misstatements in our consolidated 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 listed securities. Furthermore, we may need to incur additional costs and use additional management and other resources as our business and operations further expand or in an effort to remediate any significant control deficiencies that may be identified in the future. 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.

Any lack of requisite approvals, licenses or permits applicable to our business or failure to comply with any requirements of PRC laws, regulations and policies 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 the Ministry of Commerce, or MOFCOM, the Ministry of Industry and Information Technology, or the MIIT, the SAMR, the State Internet Information Office, the National Radio and Television Administration, or the NRTA, and other governmental authorities in charge of the relevant categories of products sold and services provided by us. Together, these government authorities promulgate and enforce regulations that cover many aspects of our operation of social e-commerce platform, including entry into this industry, 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 for our business operations. Although we hold all material licenses and permits that are necessary to our business, we have not obtained certain licenses, permits and filings for selling certain specific products or services on our platform. See “Item 4. Information on the Company—B. Business Overview—Regulations—Licenses, Permits and Filings.” For example, we have not obtained the internet audio-visual program transmission license for the audio-visual program services on our platform, for which we are not qualified to apply according to current applicable laws and regulations. In addition, we have not completed filing for distributing publications and providing live streaming services on our platform. We are in the process of applying for these licenses, permits and filings as permitted by relevant laws, regulations and practice of relevant PRC governmental authorities.

As of the date of this annual report, we have not received any notice of warning or been subject to penalties or other disciplinary actions from relevant governmental authorities regarding our business operations without the required licenses, permits or filings. However, we cannot assure you that we will not be subject to any penalties or disciplinary actions in the future. There exist substantial uncertainties with respect to interpretation and application of existing PRC laws, regulations and policies, and new laws, regulations or policies regulating the internet industry may also be promulgated in the future, which together result in substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses activities of, internet businesses in China, including our social e-commerce platform.

We may be held liable for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, and PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses necessary to operate our platforms.

Some of our members engage in sales promotion activities through our live streaming sessions under the “Endorsement” section on our *Yunji* app, on our *Yunji Endorsement* app and through our official account on other live streaming platforms, and they interact and exchange information with our users and generate and distribute content. However, because a majority of the communications through our live streaming sessions and on our platforms is conducted in real time, we are unable to verify the sources of all information communicated or posted thereon or examine the content generated by our members and users before they are posted. We also allow users to upload user-generated content on our platform. It is possible that activities of users or the content uploaded on our platform by users may engage in illegal, obscene or incendiary conversations or activities, including inappropriate or illegal information or content that may be deemed unlawful under PRC laws and regulations or that may expose us to allegations by third parties of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of third-party rights. When users register on our platform, they agree to our standard agreement, under which they agree not to disseminate any content infringing on third-party copyright on our platform. However, if any information or content on our platform is deemed illegal, obscene or incendiary, or if appropriate licenses and third-party consents have not been obtained, claims may be brought against us for defamation, libel, negligence, intellectual property rights or other rights infringement, other unlawful activities or other theories and claims based on the nature and content of the information delivered on or otherwise accessed through our platform. We also may face liability for intellectual property rights infringement, fraud, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through or published on our platform. Under relevant PRC laws and regulations, online service providers, which provide storage space for users to upload works, may be held liable for copyright infringement under various circumstances pursuant to applicable PRC laws and regulations, including situations where the online service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes upon the copyright of others and the online service provider profits from such infringing activities. In certain cases in China, the courts have found an online service provider to be liable for the copyrighted content posted by users which was accessible from and stored on such provider’s servers. Defending any such actions could be costly and involve significant time and attention of our management and other resources, and there can be no assurance that we will obtain final outcomes that are favorable to us. In addition, if it is found that we have not adequately managed the information or content on our platform, PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses necessary to operate our platform. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the continuing efforts of our senior management and key employees. If our senior management is unable to work together effectively or efficiently or if we fail to hire, retain and motivate key employees, our business may be severely disrupted.

Our success is significantly dependent upon the continued services of our management and other key employees. In particular, our founder and chief executive officer, Mr. Shanglue Xiao, and other management members are critical to our vision, strategic direction, culture and overall business success. If our senior management 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 locate suitable or qualified replacements 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 or key employees joins a competitor or forms a competing business, we may lose users, suppliers, third-party merchants, know-how and key professionals and staff members. Our senior management has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between any of them 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 such agreements at all.

The increasing scale of our business also requires us to hire and retain a wide range of capable and experienced personnel and technology talents who can adapt to a dynamic, competitive and challenging business environment. Competition for talents is intense, and the availability of suitable and qualified candidates in China is limited. Competition for talents could cause us to offer higher compensation and other benefits to attract and retain them. Even if we were to offer higher compensation and other benefits, these individuals may not choose to join or continue to work for us. Any failure to attract or retain key management and personnel could severely disrupt our business and growth.

We may be subject to claims under consumer protection laws, including health and safety claims and product liability claims, if people or properties are harmed by the products sold on our platform.

We sell products manufactured by third parties and third-party merchants sell their products on our platform. Some of the products sold on our platform may be defectively designed or manufactured. Sales of such products could expose us to increasing liability associated with consumer protection laws in those areas, including product liability or health and safety claims relating to personal injury or illness, death, or environmental or property damage, and may require product recalls or other actions. Moreover, pursuant to applicable consumer protection laws in China, consumers or any third parties subject to such injury or damage may bring claims or legal proceedings against the e-commerce platforms as sellers of such products. Although we would have legal recourse against the manufacturer or third-party seller of such products, as applicable, under PRC law if the liabilities are attributable to the manufacturer or third-party seller, attempting to enforce our rights against the manufacturer or third-party seller, as applicable, 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 most of the 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.

Our business generates and processes a large amount of data, and we are required to comply with PRC laws relating to data privacy and 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 platform, 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 PRC 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—Regulations—Regulations Relating to Internet Information Security and Privacy Protection.” All these laws and regulations may result in additional expenses and obligations to us and 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 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, and 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, 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, which could have an adverse effect on our business and results of operations.

The PRC National People’s Congress enacted the PRC Civil Code on May 28, 2020, which came into effect on January 1, 2021. The PRC Civil Code, in addition to the systematic codification of provisions from existing legislations, introduces more generally acceptable provisions on the right to privacy and the protection of personal information, and provides clearer legal basis for civil actions against privacy and personal information related infringements and breaches. More specific data privacy and cybersecurity related provisions are set out in existing legislations including the PRC Cyber Security Law (effective from June 1, 2017), the PRC E-commerce Law (effective from January 1, 2019), the PRC Consumer Rights Protection Law (latest revision effective from October 25, 2013), etc. Further, the Standing Committee of the National People’s Congress has released the draft PRC Data Security Law on July 3, 2020, and the draft PRC Personal Information Protection Law on October 21, 2020. Once enacted, these two laws, together with the current legislations, will form an increasingly comprehensive legal framework in the area of data security and data protection in the PRC.

Failure to protect confidential information of our users 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 e-commerce industry is the secure storage of confidential information and its secure transmission over public networks. A substantial amount of the orders and the payments for products offered on our platform are made through our mobile apps. In addition, all online payments for our products are settled through third-party online payment services. We also share certain personal information about our users with contracted third-party suppliers and logistics service providers, 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 user's personal information, payment-related information and transaction information, is essential to maintaining user confidence.

We have adopted security policies and measures, including encryption technology, to protect our proprietary data and user information. However, advances in technology, the expertise of hackers, 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 with respect to users on our platform. 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 users may elect to make payment for purchases. The contracted third-party suppliers and logistics service providers we use may also violate their confidentiality obligations and disclose or use information about our users illegally. Individuals or entities obtaining our users' confidential or private information illegally may further engage in various other illegal activities using such information, which may cause losses to our users and undermine their trust in our platform. We have received complaints from our users that their personal and transaction information has been leaked and used by others to conduct fraud or other illegal activities, which resulted in losses to these users. We have examined our security system and measures after receiving the complaints, and believe that it is not us or our employees who leaked the user information to others or any other reasons attributable to us and we should not be held liable for the losses suffered by the users in accordance with the applicable PRC laws. To better protect the users on our platform, we have taken further measures to enhance our data protection policies and measures, require contracted third-party suppliers and logistics service providers to comply with their confidentiality obligations, and alert our users about the potential illegal activities associated with leakage of user information. There can be no assurance, however, that the measures we have taken are sufficient and effective to ensure the confidentiality and integrity of our data and confidential user information stored or transmitted through our platform. Any negative publicity on our platform's 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. Any compromise of our information security or the information security measures of our contracted third-party suppliers or logistics service providers 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.

We rely on third-party online payment service providers for payment processing and escrow services on our platform. If these payment services are restricted or curtailed in any way or become unavailable to us or our users for any reason, our business may be materially and adversely affected.

All online payments for products sold on our platform are settled through third-party online payment service providers. Our business depends on the billing, payment and escrow systems of these payment service providers to maintain accurate records of payments of sales proceeds by users and collect such payments. If the quality, utility, convenience or attractiveness of these payment processing and escrow services declines, or we have to change the pattern of using these payment services for any reason, the attractiveness of our platform could be materially and adversely affected.

Business involving online payment services is subject to a number of risks that could materially and adversely affect third-party online payment service providers' ability to provide payment processing and escrow services to us, including:

- dissatisfaction with these online payment services or decreased use of their services by our users;

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- increasing competition, including from other established PRC internet companies, payment service providers and companies engaged in other financial technology services;
- changes to rules or practices applicable to payment systems that link to third-party online payment service providers;
- breach of users' personal information and concerns over the use and security of information collected from users;
- service outages, system failures or failures to effectively scale the system to handle large and growing transaction volumes;
- increasing costs to third-party online payment service providers, including fees charged by banks to process transactions through online payment channels, which would also increase our costs of revenues; and
- failure to manage funds accurately or loss of funds, whether due to employee fraud, security breaches, technical errors or otherwise.

Certain commercial banks in China impose limits on the amounts that may be transferred by automated payment from users' bank accounts to their linked accounts with third-party online payment services. We cannot predict whether these and any additional restrictions that could be put in place would have a material adverse effect on our platform.

In addition, the commercial banks and third-party online payment service providers that we work with are subject to the supervision of the People's Bank of China, or the PBOC. The PBOC may publish rules, guidelines and interpretations from time to time regulating the operation of financial institutions and payment service providers, which may in turn affect how they provide payment services to us. For example, in November 2017, the PBOC published a notice, or the PBOC Notice, on the investigation and administration of illegal offering of settlement services by financial institutions and payment service providers to unlicensed entities. The PBOC Notice intends to prevent unlicensed entities from using licensed payment service providers as a conduit for conducting unlicensed payment settlement service business, to safeguard the fund security and information security. We launched the marketplace business in the first quarter of 2019, and cooperate with third-party online payment service providers and commercial bank to receive payment from the buyers and distribute payment to third-party merchants and us. We believe our current cooperation with third-party online payment service providers and commercial bank are not in violation of the PBOC Notice. We will continue to expand cooperation with third-party online payment service providers and commercial banks to cover all of our marketplace business and to support the new initiatives. We cannot assure you that the PBOC or other governmental authorities will find our cooperation model with third-party online payment service providers and commercial banks with respect to the marketplace business model to be in compliance with the PBOC Notice. If required by the PBOC or other relevant governmental authorities in the future, we may need to adjust or suspend our cooperation model with third-party payment service providers, and be subject to fines and other sanctions.

In addition, we cannot assure you that we will be successful in entering into and maintaining amicable relationships with these online payment service providers and commercial banks. Identifying, negotiating and maintaining relationships with these providers require significant time and resources. Our current agreements with these service providers also do not prohibit them from working with our competitors. They could choose to terminate their relationships with us or propose terms that we cannot accept. In addition, these service providers may not perform as expected under our agreements with them, and we may have disagreements or disputes with such payment service providers, any of which could adversely affect our brand and reputation as well as our business operations.

Changes in our return and exchange policies may adversely affect our results of operations.

Pursuant to the Consumer Protection Law in China, as amended, except for certain types of products, such as custom-made goods, fresh and perishable goods, consumers are generally entitled to return the products purchased within seven days upon receipt without giving any reasons. We have adopted user-friendly return and exchange policies that make it convenient and easy for users to change their minds after completing purchases, including allowing users to return products purchased within seven days upon receipt without giving any reasons. We may be required by new laws or regulations to adopt new or amend existing return and exchange policies from time to time. These policies may subject us to additional costs and expenses which we may not recoup through increased revenue. If our return and exchange policy is misused by a significant number of users, 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 users may be dissatisfied, which may result in loss of existing users or failure to acquire new users at a desirable pace, 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.

Certain lessors of our leased properties have not provided us with their property ownership certificates or any other documentation proving their right to lease those 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. We have not entered into written contracts with our lessors for some of our leased properties and the lessors of such properties may claim to terminate our leases. We may not be able to find alternative properties to lease in a timely and reliable manner, or at all. Some of the leased properties were also subject to mortgage at the time the leases were entered into. If no consent had been obtained from the mortgage holder under such circumstances, the lease may not be binding on the transferee of the property in the event that the mortgage holder forecloses on the mortgage and transfers the property to another party. In addition, a substantial portion of our leasehold interests in leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines if we fail to remediate after receiving any notice from the relevant PRC government authorities. We have subleased a portion of our leased properties to our PRC subsidiaries, VIEs and their subsidiaries as well as other third parties.

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 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.

Failure to renew our current leases or locate desirable alternatives for our leased properties could materially and adversely affect our business.

We lease properties for our offices. We may not be able to successfully extend or renew such leases upon expiration of the current term on commercially reasonable terms or at all, and may therefore be forced to relocate our affected operations. This could disrupt our operations and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. In addition, we may compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our current leased properties as our business continues to grow and failure in relocating our affected operations could adversely affect our business and operations.

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

We adopted a share incentive plan in 2017, which was amended and restated in its entirety in March 2019 and referred to as the 2019 Plan in this annual report, for the purpose of granting share-based compensation awards to employees, directors, officers, consultants and other personnel to incentivize their performance and align their interests with ours. We recognize expenses in our consolidated financial statements in accordance with U.S. GAAP. Under the 2019 Plan, we are authorized to grant options, restricted shares, restricted share units and other types of awards. As of February 28, 2021, the awards that had been granted to our directors, officers, employees, consultants and other personnel and remained outstanding included (i) 100,974,600 restricted share units, excluding restricted share units that were forfeited, cancelled, or vested after the relevant grant date, and (ii) options to purchase an aggregate of 68,119,430 Class A ordinary shares, excluding options that were forfeited, cancelled, or exercised after the relevant grant date. In particular, on May 3, 2019, we were authorized by our board of directors to grant stock options and restricted share units to non-employees under the 2019 Plan, and granted options to purchase an aggregate of 10,409,050 Class A ordinary shares and 3,332,040 restricted share units to non-employees by batches during the year ended December 31, 2019. In addition, on January 1, 2020, we were authorized by our board of directors to grant 356,210 restricted share units to two external consultants. See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—2019 Share Incentive Plan.” 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. We may re-evaluate the vesting schedules, lock-up period, exercise price or other key terms applicable to the grants under our currently effective share incentive plans from time to time. If we choose to do so, we may experience substantial change in our share-based compensation charges in the reporting periods.

Our results of operations are subject to seasonal fluctuations which could result in volatility or have an adverse effect on the market price of our ADSs.

We experience seasonality in our business, reflecting a combination of seasonal fluctuations in internet usage and traditional retail seasonality patterns. For example, we generally experience less user traffic and purchase orders during the Chinese New Year holiday season in the first quarter of each year. Furthermore, online sales in China are significantly higher in the fourth quarter of each calendar year than in the preceding three quarters. E-commerce companies in China hold special promotional campaigns on November 11 each year and we hold a special promotional campaign in the second quarter of each year, both of which can affect our results for those quarters. The decrease in sales and marketing expenses from the second quarter of 2018 to the third quarter of 2018 was mainly due to the decrease in member management fees we paid to the third-party service companies for their product sales facilitation services during this period, which resulted from the decrease of revenues from the second quarter of 2018 to the third quarter of 2018 due to seasonality. The decreases in our total revenues from quarter to quarter in 2019 and 2020 were primarily due to continual decreases in revenues from sales of merchandise as a result of continual increases in the proportion of our business contributed from our marketplace business platform from quarter to quarter in 2019 and 2020. Revenues generated under our marketplace business were recognized on a net basis, while revenues generated under our merchandise sales business were recognized on a gross basis. Due to the foregoing factors, our financial condition and results of operations for future quarters may continue to fluctuate and our historical quarterly results may not be comparable to future quarters. 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 need additional capital, and financing may not be available on terms acceptable to us, or at all.

In the year ended December 31, 2018, our operating cash flow was positive, but in the years ended December 31, 2019 and 2020, our operating cash flow was negative. It is possible that we will continue to have negative cash flow in the future. We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months. 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. 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. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

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 mobile apps 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 e-commerce 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. In addition, there can be no assurance that (i) our application for registration of trademarks, patents, and other intellectual property rights will be approved, (ii) any intellectual property rights will be adequately protected, or (iii) such intellectual property rights will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Furthermore, because of the rapid pace of technological change 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. Confidentiality, invention assignment 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 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. There could also be existing patents of which we are not aware that our products may inadvertently infringe. We cannot assure you that holders of patents 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.

In addition, we strive to closely monitor the products offered on our platform, and also require suppliers and third-party merchants to indemnify us for any losses we suffer or any costs that we incur in relation to the products we source from such suppliers or the products offered by such third-party merchants on our platform. However, we cannot be certain that these measures would be effective in completely preventing the infringement of trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. Further, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. 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 rely on proper operation and maintenance of our mobile platform and internet infrastructure and telecommunications networks in China. Any malfunction, capacity constraint or operation interruption may have an adverse impact on our business.

Currently, substantially all of our sales of products are generated online through our mobile platform. Therefore, the satisfactory performance, reliability and availability of our mobile platform are critical to our success and our ability to attract and retain users. Our business depends on the performance and reliability of the internet infrastructure in China. The reliability and availability of our mobile platform 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 and renew agreements with these providers on 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 products and services could be adversely affected. Access to internet in China is maintained through state-owned telecommunications carriers under administrative control, and we obtain access to end-user networks operated by such telecommunications carriers and internet service providers to give users access to our mobile platform. The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our mobile platform. Service interruptions prevent users from accessing our mobile platform and placing orders, and frequent interruptions could frustrate users and discourage them from attempting to place orders, which could cause us to lose users and in turn suppliers and third-party merchants and harm our operating results.

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 food safety insurance for our products. In addition to providing social security insurance for our employees as required by PRC law, we also provide supplemental commercial medical insurance, which covers life insurance, for our employees upon request. We do not maintain business interruption insurance, nor do we maintain product liability insurance or 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.

Our failure to comply with anti-corruption laws and regulations, or effectively control the corruptive activities of our employees, could severely damage our reputation, and materially and adversely affect our business, financial condition, results of operations and prospects.

We are subject to risks in relation to actions taken by us or our employees that may constitute violations of the anti-corruption laws and regulations. While we adopt strict internal procedures and work closely with relevant government agencies to assure compliance of our business operations with relevant laws and regulations, our efforts may not be sufficient to ensure that we comply with relevant laws and regulations at all times or prevent corruptive activities of our employees. If we or our employees violate any such laws, rules or regulations, we could be subject to fines and/or other penalties. Our reputation, corporate image, and business operations may be materially and adversely affected if we or our employees engage in corruptive activities or violate any anti-corruption laws or regulations or if we become the target of any negative publicity as a result of corruptive actions taken by us or our employees, which may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

We may increasingly become a target for public scrutiny, including complaints to regulatory agencies, which could severely damage our reputation and materially and adversely affect our business and prospects. Negative media coverage or publicity of us, our management or our employees or public dissemination of malicious assessments of our business could harm our reputation and cause us to lose market share, users and revenues and adversely affect the price of our ADSs.

The high volume of transactions taking place on our platform as well as publicity about our business create the possibility of heightened attention from the public, regulators and the media. Heightened regulatory and public concerns over consumer protection, consumer safety and data privacy and security issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to the large number of transactions that take place on our platform and the increasing scope of our overall business operations. We may become the target of detrimental conduct by third parties, which include complaints, anonymous or otherwise, to regulatory agencies. 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. Moreover, as our business expands and grows, we may be exposed to heightened public scrutiny in jurisdictions where we already operate as well as in new jurisdictions where we may operate. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects. Any illegal or immoral conducts by our management or employees could also result in negative publicity of us and thus harm our public image and reputation.

In addition, allegations, directly or indirectly against us, may be posted in social media or on blogs or websites by anyone, whether or not related to us, on an anonymous basis. Consumers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation or authentication and without regard to its accuracy. The availability of information on social media platforms and devices is virtually immediate, as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our financial 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, users and revenues and adversely affect the price of our ADSs.

We and certain of our directors and officers have been named as defendants in putative shareholder class action lawsuits, which could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.

We will have to defend against putative shareholder class action lawsuits described in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings,” including any appeals of such lawsuits should our initial defenses be unsuccessful. We are currently unable to estimate the possible outcome or loss or possible range of loss, if any, associated with the resolution of these lawsuits. In the event that our initial defenses of these lawsuits are unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome of these cases, including any plaintiff’s appeal of a judgment in these lawsuits, could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

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

Our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns affecting the PRC. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to operate our platform and provide services and solutions. Our business could also be adversely affected if our employees are affected by health epidemics. Our business operations could be disrupted if any of our employees is suspected of having any transmissible health epidemic, since this may cause our employees to be quarantined and/or our offices to be temporarily shut down. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general.

For example, beginning in January 2020, the outbreak of COVID-19 has severely impacted China and the rest of the world, and our business and results of operations have been adversely affected as a result. In early 2020, the COVID-19 pandemic resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. Given the strict implementation of quarantine measures during this period, we, our suppliers, third-party merchants, third-party logistics service providers and other business partners experienced various degrees of temporary shutdowns and delays in commencement of operations. We and certain of our business partners implemented temporary adjustment of work schemes allowing employees to work from home and adopt remote collaboration. We took measures to reduce the impact of the epidemic outbreak and provided support to our employees, service managers, members and business partners, including, providing advance online technical support to enable majority of our employees to work from home efficiently, securing ample supply of disinfectant materials and protective gears for our employees who were able to return to work, and maintaining a steady supply of daily essential products and epidemic containment materials at stable prices on our platform as a result of our combination of private labels, joint-venture brands, and product partnerships. As a result of the above developments, our operations and results of operations for the first quarter of 2020 were adversely affected.

Many of the quarantine measures within China have since been relaxed, and we, together with our suppliers, third-party merchants, third-party logistics service providers and other business partners, have gradually resumed normal operations since early March 2020. The COVID-19 global pandemic has resulted in, and may intensify, global economic distress, and the duration and extent of the impact of COVID-19 outbreak is highly uncertain at this time. The extent to which it may affect our results of operations, especially our product mix, our financial condition and our cash flows will depend on the future development of the outbreak, which is also highly uncertain and difficult to predict and will depend on a number of factors, including the duration and severity of COVID-19, the extent and severity of new waves of outbreak in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment and the effectiveness of such vaccine and other medical treatment, and the actions taken by government authorities to contain the outbreak, all of which are beyond our control. If the situation materially deteriorates in China or globally, our business, results of operations and financial condition could be materially and adversely affected. In particular, there have been new waves of outbreaks in various cities in China and if the situation materially deteriorates in China, the Chinese government may again implement strict quarantine measures to contain the new waves of outbreak and our operations and the operations of our business partners may be materially and adversely affected.

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

The success of our business ultimately depends on consumer spending. We derive substantially all of our revenues from China. As a result, our revenues and financial results are impacted to a significant extent by economic conditions in China and globally, as well as economic conditions specific to online retail. The global macroeconomic environment is facing numerous challenges. The growth rate of the Chinese economy has gradually slowed since 2010 and the trend may continue in the foreseeable future, especially in light of the challenges the global economy is facing due to the COVID-19 global pandemic. See “— We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.” Any slowdown could significantly reduce domestic commerce in China, including through the internet generally and through us. In addition, there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. 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. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

Our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the “over-the-counter” trading market in the U.S.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is currently not inspected by the PCAOB.

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCA Act. We will be required to comply with these rules if the SEC identifies us as having a “non-inspection” year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the HFCA Act, including the listing and trading prohibition requirements described above.

The SEC may propose additional rules or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President’s Working Group on Financial Markets, or the PWG, issued the *Report on Protecting United States Investors from Significant Risks from Chinese Companies* to the then President of the United States. This report recommended the SEC implement five recommendations to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfil its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the HFCA Act. However, some of the recommendations were more stringent than the HFCA Act. For example, if a company was not subject to PCAOB inspection, the report recommended that the transition period before a company would be delisted would end on January 1, 2022.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the HFCA Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The implications of this possible regulation in addition to the requirements of the HFCA Act are uncertain. Such uncertainty could cause the market price of our ADSs to be materially and adversely affected, and our securities could be delisted or prohibited from being traded “over-the-counter” earlier than would be required by the HFCA Act. If our securities are unable to be listed on another securities exchange by then, such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ADSs.

The PCAOB’s inability to conduct inspections in China prevents it from fully evaluating the audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ordinary shares are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

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 in the PRC or by the CSRC or the PRC Ministry of Finance in the United States. 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.

Proceedings instituted by the SEC against PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

Starting in 2011, the PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and PRC law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the PRC firms access to their audit work papers and related documents. The firms were, however, advised and directed that under PRC law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the PRC accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms were to receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they failed to meet specified criteria, during a period of four years starting from the settlement date, the SEC retained authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. It is uncertain whether the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. laws in connection with U.S. regulatory requests for audit work papers or if the results of such challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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In the event the Chinese affiliates of the “big four” become subject to additional legal challenges by the SEC or PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our common stock may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs from the Nasdaq Global Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

We are subject to changing law and regulations regarding regulatory matters, corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.

We are or will be subject to rules and regulations by various governing bodies, including, for example, the Securities and Exchange Commission, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to 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 parts of our businesses, including value-added telecommunications services, 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 (excluding e-commerce) and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record, and foreign investors are prohibited from engaging in the distribution of audio and video products in China via the internet in accordance with the Special Administrative Measures for Market Access of Foreign Investment (Negative List) promulgated in 2020.

We are an exempted Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises. Accordingly, none of these PRC subsidiaries is eligible to provide internet content-related services. As a result, we conduct such business activities through two of our VIEs, (i) Yunji Preferred, whose wholly-owned subsidiary holds a VATS License for online data processing and transaction processing business (operating e-commerce, excluding internet finance and e-hailing services) and internet content-related services (excluding information search and inquiry services and real-time interactive information services); and (ii) Hangzhou Chuanchou, who holds a VATS License for internet content-related services (excluding information search and inquiry services and real-time interactive information services). Yunji Preferred is 99.0099% owned by Mr. Shanglue Xiao, the chairman of our board of directors and our chief executive officer, and 0.9901% owned by Mr. Huan Hao, a beneficial owner of the shares of our company. Mr. Shanglue Xiao and Mr. Huan Hao are PRC citizens. Hangzhou Chuanchou is 100% owned by Mr. Wenwei Shu, a nominee of our company. Mr. Wenwei Shu is PRC Citizen. Our WFOE has entered into a series of contractual arrangements with our VIEs (including Yunji Preferred and Hangzhou Chuanchou) and their respective shareholders, which enable us to:

- exercise effective control over our VIEs;

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- receive substantially all of the economic benefits and bear the obligation to absorb substantially all of the losses of our VIEs; and
- have an exclusive option to purchase all or part of the equity interests in our VIEs when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we have control over and are the primary beneficiary of our VIEs and hence consolidate their financial results and their subsidiaries into our consolidated financial statements under U.S. GAAP. For a detailed discussion of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

In the opinion of Han Kun Law Offices, our PRC legal counsel, (i) the ownership structures of our WFOE and our VIEs in China are not in violation of PRC laws and regulations currently in effect; and (ii) the contractual arrangements between our WFOE, our VIEs and their respective shareholders governed by PRC law are not in violation of PRC laws or regulations currently in effect, and valid and binding upon each party to such arrangements and enforceable against each party thereto in accordance with their terms and applicable PRC laws and 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 our VIEs are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of such entities;
- discontinuing or placing restrictions or onerous conditions on our operations;
- imposing fines, confiscating the income from our WFOE or our VIEs, or imposing other requirements with which we or our VIEs may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our VIEs and deregistering the equity pledges of our VIEs, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our VIEs; or
- restricting or prohibiting our use of the proceeds 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 our VIEs 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 our VIEs or our right to receive substantially all the economic benefits and residual returns from our VIEs 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 our VIEs 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.

Our current corporate structure and business operations may be affected by the newly enacted Foreign Investment Law.

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which took effect on January 1, 2020, and on December 26, 2019, the State Council promulgated the Implementation Rules of Foreign Investment Law, which took effect on January 1, 2020. Since it is relatively new, uncertainties exist in relation to its interpretation and implementation. The Foreign Investment Law does not explicitly classify whether variable interest entities that are controlled through contractual arrangements would be deemed as foreign invested enterprises if they are ultimately “controlled” by foreign investors. However, it has a catch-all provision under definition of “foreign investment” that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the State Council. Therefore it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment. Therefore, there can be no assurance that our control over our VIEs through contractual arrangements will not be deemed as foreign investment in the future.

The Foreign Investment Law grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either “restricted” or “prohibited” from foreign investment in the Special Administrative Measures (Negative List) for Foreign Investment Access jointly promulgated by Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission, or NDRC, as amended from time to time. The Foreign Investment Law provides that foreign-invested entities are barred from operating in “prohibited” industries and will require market entry clearance and other approvals from relevant PRC government authorities if operating in “prohibited” industries. On December 26, 2019, the Supreme People’s Court issued the Interpretations on Certain Issues Regarding the Application of Foreign Investment Law, or the FIL Interpretations, which came into effect on January 1, 2020. In accordance with the FIL Interpretations, any claim to invalidate an investment agreement will be supported by courts if such agreement is found to be entered into for purposes of making investments in the “prohibited industries” under the negative list or for purposes of investing in “restricted industries” while failing to satisfy the conditions set out in the Negative List. If our control over our VIEs through contractual arrangements are deemed as foreign investment in the future, and any business of our VIEs is “restricted” or “prohibited” from foreign investment under the “negative list” effective at the time, we may be deemed to be in violation of the Foreign Investment Law, the contractual arrangements that allow us to have control over our VIEs may be deemed as invalid and illegal, and we may be required to unwind such contractual arrangements and/or restructure our business operations, any of which may have a material adverse effect on our business operation.

Furthermore, if future laws, administrative regulations or provisions 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 and business operations.

We rely on contractual arrangements with our VIEs and their respective shareholders for a large portion of our business operations, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with our VIEs and their respective shareholders to conduct our business. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs. For example, our VIEs and their respective shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of our VIEs, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIEs, 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 VIEs and their respective shareholders of their obligations under the contracts to exercise control over our VIEs. The shareholders of our VIEs 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 VIEs. 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. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by our VIEs or their respective 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 VIEs may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

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

If our VIEs or their respective 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 VIEs were to refuse to transfer their equity interest in our VIEs to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All of 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 China is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China 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. 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.

Jishang Preferred, a wholly-owned subsidiary of Yunji Preferred, one of our VIEs, holds our VATS License for online data processing and transaction processing business (operating e-commerce, excluding internet finance and e-hailing services) and internet content-related services (excluding information search and inquiry services and real-time interactive information services). In the event we are unable to enforce our contractual arrangements, we may not be able to exert effective control over Yunji Preferred, and our ability to conduct these businesses may be negatively affected.

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

The shareholders of our VIEs may have potential conflicts of interest with us. For example, Mr. Shanglue Xiao and Mr. Huan Hao are the shareholders of Yunji Preferred, one of our VIEs. Mr. Shanglue Xiao is the chairman of our board of directors and our chief executive officer and Mr. Huan Hao is a beneficial owner of shares of our company. The shareholders may breach, or cause our VIEs to breach, or refuse to renew, the existing contractual arrangements we have with them and our VIEs, which would have a material and adverse effect on our ability to effectively control our VIEs and receive substantially all the economic benefits from them. For example, the shareholders may be able to cause our agreements with our VIEs 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 our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in the VIEs to a PRC entity or individual designated by us, to the extent permitted by PRC law. For individuals who are also our directors and officers, we rely on them to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to the company that requires 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. The shareholders of our VIEs have executed shareholders' voting rights proxy agreement to appoint our WFOE or a person designated by our WFOE to vote on their behalf and exercise voting rights as shareholders of our VIEs. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our VIEs, 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.

The shareholders of our VIEs may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the relevant VIEs and the validity or enforceability of our contractual arrangements with the relevant entity and its shareholders. For example, in the event that any of the shareholders of our VIEs divorces his or her spouse, the spouse may claim that the equity interest of the relevant VIE held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder's spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in a loss of the effective control over the relevant VIE by us. Similarly, if any of the equity interests of our VIEs is inherited by a third party with whom the current contractual arrangements are not binding, we could lose our control over the relevant VIE or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

Although under our current contractual arrangements, (i) each of the spouses of each individual shareholder of our VIEs, including, but not limited to, Mr. Shanglue Xiao, Mr. Huan Hao and Mrs. Panyan Ding, has respectively executed a spousal consent letter, under which each spouse agrees that he/she will not raise any claims against the equity interest, and will take every action to ensure the performance of the contractual arrangements, and (ii) the VIEs and the their shareholders shall not assign any of their respective rights or obligations to any third party without the prior written consent of our WFOE, we cannot assure you that these undertakings and arrangements will be complied with or effectively enforced. In the case any of them is breached or becomes unenforceable and leads to legal proceedings, it could disrupt our business, distract our management's attention and subject us to substantial uncertainties as to the outcome of any such legal proceedings.

Contractual arrangements in relation to our VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIEs 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 variable interest entity contractual arrangements 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 the income of our VIEs 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 our VIEs for PRC tax purposes, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose punitive interest on our VIEs 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 VIEs' tax liabilities increase or if they are required to pay punitive interest.

Risks Related to Doing Business in China

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

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole. The PRC 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 PRC 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 PRC government continues to play a significant role in regulating industry development by imposing industrial policies.

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The PRC government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

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

Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.

We conduct our business primarily through our PRC subsidiaries and our VIEs. 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 under the civil law system may be cited for reference but have limited precedential value. In addition, any new or changes in PRC laws and regulations related to foreign investment in China could affect the business environment and our ability to operate our business in China.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. 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 provisions 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.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

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

We only have contractual control over our *Yunji* mobile app. We do not directly own the mobile apps due to the restrictions on foreign investment in businesses providing internet content-related 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 the State Internet Information Office (with the involvement of the State Council Information Office, MIIT, and the Ministry of Public Security). The primary role of the State Internet Information Office 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.

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Our online platform, operated by Jishang Preferred, a wholly-owned subsidiary of Yunji Preferred, may be deemed to be providing commercial internet content-related services and online data processing and transaction processing services, which would require Jishang Preferred to obtain an ICP License and an EDI License. Each of ICP License and EDI License is under the category of value-added telecommunications business operating licenses, or VATS License. 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 telecommunications 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. 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. According to the recent practice in China, if any commercial internet content-related service or online data processing and transaction processing service is to be carried out via mobile apps, such mobile apps are required to be registered on the VATS License of the operator of such mobile apps. Our *Yunji* mobile app has been registered on the VATS License held by Jishang Preferred.

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.

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

Shareholder claims or regulatory investigations that are common in jurisdictions outside China 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 United States or other jurisdictions may not be efficient in the absence of a 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, and without the consent by the Chinese securities regulatory authorities and the other competent governmental agencies, no entity or individual may provide documents or materials related to securities business to any foreign party. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability of an overseas securities regulator to directly conduct investigation or evidence collection activities within China and the potential obstacles for information provision may further increase difficulties you face in protecting your interests. See also “—Risks Related to Our ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the annual report based on foreign laws.

We are an exempted company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and all of them are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors as none of them currently resides in the United States or has substantial assets located in the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. Due to jurisdictional limitations, matters of comity and various other factors, the SEC, U.S. Department of Justice and other U.S. authorities may also experience difficulties in bringing and enforcing actions against us or our directors and officers, including in instances of fraud or other wrongdoing.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of written arrangement with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

In addition, shareholder claims that are common in the United States, including class action securities law and fraud claims, may be difficult to pursue as a matter of law or practicality in China. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law against a company in China for disputes if they can establish sufficient nexus to the PRC for a PRC court to have jurisdiction, and meet other procedural requirements, including, among others, the plaintiff must have a direct interest in the case, and there must be a concrete claim, a factual basis and a cause for the suit. It will be, however, difficult for U.S. shareholders to originate actions against us in the PRC in accordance with PRC laws because we are incorporated under the laws of the Cayman Islands and it will be difficult for U.S. shareholders, by virtue only of holding the ADSs or our ordinary shares, to establish a connection to the PRC for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.

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 into Renminbi to pay our operating expenses, appreciation of Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

All of our revenues are denominated in Renminbi, while a portion of our financial assets are denominated in U.S. dollars. Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have entered into cross currency swap contracts with fixed exchange rate between U.S. dollar and Renminbi to help hedge our exposure to foreign currency risk. However, the amount of such hedging transactions we entered into is small and the effectiveness of the hedges is uncertain. We may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

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

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

In light of the flood of capital outflows of China, the PRC government may from time to time impose more restrictive foreign exchange policies and step up scrutiny of major outbound capital movement. More restrictions and substantial vetting process may be required by SAFE or other government authorities to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

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

Among other things, the Regulations on Mergers and Acquisitions of Domestic Enterprises 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. Such regulation requires, among other things, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council in 2008 and was amended in 2018, were triggered. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress, or NPC, which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the anti-monopoly authority before they can be completed. In addition, PRC national security review rules which became effective in September 2011 and Measures for the Security Review of Foreign Investment which became effective in January 2021 require acquisitions by foreign investors of PRC companies engaged in military related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the MOFCOM and the NDRC or even anti-monopoly authority, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

MOFCOM approval may be required for our acquisition of certain PRC subsidiaries.

Pursuant to the M&A Rules, if an overseas company established or controlled by PRC companies or individuals, or PRC Citizens, intends to acquire equity interests or assets of any other PRC domestic company affiliated with the PRC Citizens, such acquisition must be submitted to MOFCOM for approval. Our WFOE acquired certain PRC subsidiaries that were wholly owned, directly or indirectly, by Yunji Sharing, in 2018. Such acquisitions may be subject to MOFCOM approval, but were not submitted to the MOFCOM for approval. There is no definite penalty provided under M&A Rules for failure to obtain MOFCOM approval in transactions where such approval is required. If it is determined that MOFCOM approvals are required for the acquisitions, we may be required to revert the transactions. Nevertheless, considering that all the PRC subsidiaries involved in such transactions were wholly owned, directly or indirectly, by Yunji Sharing, which is one of our VIEs, before the acquisitions, and the acquisition of the PRC subsidiaries are inter-group companies transactions, we understand that the failure to obtain the MOFCOM approvals for the acquisitions of the PRC subsidiaries will not have a material adverse effect on our financial condition and results of operations. We conducted a few other inter-group restructuring transactions in 2019, which may also be subject to MOFCOM approval, but were not submitted to MOFCOM for approval. For example, our WFOE acquired Shanghai Suye Cosmetics Co., Ltd, or Shanghai Suye, which was owned by an affiliated entity of Mr. Shanglue Xiao, in January 2019, and Shanghai Suye was then transferred to Yunji Preferred from our WFOE in February 2019.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to change their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC laws.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities as well as foreign individuals that are deemed as PRC residents for foreign exchange administration purpose) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of a PRC individual shareholder, name and operation term, or any significant changes with respect to the offshore special purpose vehicle, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

If our shareholders who are PRC residents fail to make the required registration or to update the previously filed registration, our PRC subsidiaries may be prohibited from distributing their profits or the proceeds from any capital reduction, share transfer or liquidation to us, and we may also be prohibited from making additional capital contributions into our PRC subsidiaries. In February 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, effective June 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

All of our shareholders who we are aware of being subject to the SAFE regulations have completed the initial registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurance that these PRC residents will comply with our request to make or obtain any applicable registrations or continuously comply with all requirements under SAFE Circular 37 or other related rules. The failure or inability of the relevant shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and legal sanctions, such as restrictions on our cross-border investment activities, on the ability of our wholly foreign-owned subsidiaries in China to distribute dividends and the proceeds from any reduction in capital, share transfer or liquidation to us. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

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.

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 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, 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. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in China for a continuous period of not less than one year and who have been granted options are subject to these regulations as our company is an overseas-listed company. Failure to complete SAFE registrations may subject them to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary and limit our PRC subsidiary's ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Item 4. Information on the Company — B. Business Overview—Regulations—Regulations Relating to Labor Protection in the PRC—Employee Stock Incentive Plan."

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In addition, the State Administration of Taxation, or SAT, has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China 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. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Labor Protection in the PRC—Employee Stock Incentive Plan.”

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 an exempted Cayman Islands holding company and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries 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 any of our PRC 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. Under PRC laws and regulations, our PRC subsidiaries, each of which is a wholly foreign-owned enterprise, may pay dividends only out of its 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 after-tax profits each year, if any, to fund a 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 a staff welfare and bonus fund. These reserve fund and staff welfare and bonus fund cannot be distributed to us as dividends.

Our PRC subsidiaries generate primarily all of their revenue in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to use their Renminbi revenues to pay dividends to us.

The PRC government may continue to strengthen its capital controls, and more restrictions and substantial vetting process may be put forward by SAFE for cross-border transactions falling under both the current account and the capital account. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other kinds of payments 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.

In addition, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax rate of up to 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds to make loans to our PRC subsidiaries and our VIEs 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 our VIEs. We may make loans to our PRC subsidiaries and VIEs 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 registered with the local counterpart of SAFE. In addition, a foreign invested enterprise shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of a foreign invested enterprise shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or 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 foreign-invested real estate enterprises).

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or SAFE Circular 19, effective June 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in China in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds, to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in China.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or VIEs or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or VIEs when needed. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with "de facto management body" within China 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, productions, personnel, accounts and properties of an enterprise. In 2009, the SAT, issued the Circular of the State Administration of Taxation on Issues Relating to Identification of PRC-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the De Facto Standards of Organizational Management, or SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect 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 SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in China; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in China; and (iv) at least 50% of voting board members or senior executives habitually reside in China.

We believe that we are not a PRC resident enterprise for PRC tax purposes. 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 we are a PRC resident enterprise for enterprise income tax purposes, we could be subject to PRC tax at a rate of 25% on our worldwide income, which could materially reduce our net income, and we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to 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 China. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of ADSs or Class A ordinary shares by such shareholders may be subject to PRC tax at a rate of 10% in the case of non-PRC enterprises or a rate of 20% in the case of non-PRC individuals unless a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs or Class A ordinary shares.

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

In February 2015, the SAT issued the Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 extends its tax jurisdiction to not only indirect transfers but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides certain criteria on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owns the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a tax rate of 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes. However, according to the aforesaid safe harbor rule, the PRC tax would not be applicable to the transfer by any non-resident enterprise of ADSs of the Company acquired and sold on public securities markets.

On October 17, 2017, the SAT issued the Public Notice on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or the SAT Public Notice 37, which came into effect on December 1, 2017. According to SAT Public Notice 37, where the non-resident enterprise fails to declare its tax payable pursuant to Article 39 of the EIT Law, the tax authority may order it to pay its tax due within required time limits, and the non-resident enterprise shall declare and pay its tax payable within such time limits specified by the tax authority. If the non-resident enterprise voluntarily declares and pays its tax payable before the tax authority orders it to do so, it shall be deemed that such enterprise has paid its tax payable in time.

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We face uncertainties on the reporting and consequences of future private equity financing transactions, share exchanges or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed under SAT Public Notice 7 and SAT Public Notice 37, and may be required to expend valuable resources to comply with them or to establish that we and our non-resident enterprises should not be taxed under these regulations, which may have a material adverse effect on our financial condition and results of operations.

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

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit the application through our office automation system and the application will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or our VIEs or their subsidiaries. To the extent those chops are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations.

Recent litigation and negative publicity surrounding China-based companies listed in the U.S. may result in increased regulatory scrutiny of us and negatively impact the trading price of our ADSs.

We believe that litigation and negative publicity surrounding companies with operations in China that are listed in the U.S. have negatively impacted stock prices for such companies. Various equity-based research organizations have published reports on China-based companies after examining, among other things, their corporate governance practices, related party transactions, sales practices and financial statements that have led to special investigations and stock suspensions on national exchanges. Any similar scrutiny of us, regardless of its lack of merit, could result in a diversion of management resources and energy, potential costs to defend ourselves against rumors, decreases and volatility in the ADS trading price, and increased directors and officers insurance premiums, and could have a material adverse effect upon our business, results of operations and financial condition.

The tension in international trade and rising political tension, particularly between U.S. and China, may adversely impact our business, financial condition, and results of operations.

Although cross-border business may not be an area of our focus, if we plan to expand our business internationally in the future, any unfavorable government policies on international trade, such as capital controls or tariffs, may affect the demand for our products and services, impact our competitive position, or prevent us from being able to conduct business in certain countries. If any new tariffs, legislation, or regulations are implemented, or if existing trade agreements are renegotiated, such changes could adversely affect our business, financial condition, and results of operations. Recently, there have been heightened tensions in international economic relations, such as the one between the United States and China. The U.S. government has recently imposed, and has recently proposed to impose additional, new, or higher tariffs on certain products imported from China to penalize China for what it characterizes as unfair trade practices. China has responded by imposing, and proposing to impose additional, new, or higher tariffs on certain products imported from the United States. Following mutual retaliatory actions for months, on January 15, 2020, the United States and China entered into the Economic and Trade Agreement Between the United States of America and the People's Republic of China as a phase one trade deal, effective on February 14, 2020. It remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade, tax policy related to international commerce, or other trade matters.

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The situation is further complicated by the political tensions between the United States and China that escalated during the COVID-19 pandemic and in the wake of the PRC National People's Congress' decision on Hong Kong national security legislation, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC and the executive orders issued by U.S. President in August 2020 that prohibit certain transactions with certain China-based companies and their respective subsidiaries. Against this backdrop, China has implemented, and may further implement, measures in response to the changing trade policies, treaties, tariffs and sanctions and restrictions against Chinese companies initiated by the U.S. government. For example, the Ministry of Commerce of China published new rules in January 2021 to counter restrictions imposed by foreign countries on Chinese citizens and companies. Rising trade and political tensions could reduce levels of trade, investments, technological exchanges and other economic activities between China and other countries, which would have an adverse effect on global economic conditions, the stability of global financial markets, and international trade policies.

Although the direct impact of the current international trade and political tension, and any escalation of such tension, on the online retail industry in China is uncertain, the negative impact on general, economic, political and social conditions may adversely impact our business, financial condition and results of operations.

Risks Related to Our ADSs

The trading price of our ADSs may be volatile, which could result in substantial losses to you.

Since our ADSs became listed on the Nasdaq Global Market on May 3, 2019, the trading price of our ADSs has ranged from US\$1.67 to US\$6.05 per ADS in 2020. 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 PRC companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward PRC 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 PRC companies may also negatively affect the attitudes of investors towards PRC 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, the second half of 2011 and early 2020, 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, users, 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 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;

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- conditions in the e-commerce 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;
- public perception or negative news about our products or us;
- litigation, government investigation or other legal or regulatory proceedings;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our issued and outstanding shares or ADSs;
- sales or perceived potential sales of additional Class A ordinary shares or ADSs; and
- general economic or political conditions in China or elsewhere in the world.

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

We are named as a defendant in putative shareholder class action lawsuits in the United States, and we may be involved in more class action lawsuits in the future. Such lawsuits could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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The concentration of our share ownership among executive officers, directors, and principal shareholders and their affiliated entities will likely limit your ability to influence corporate matters and could discourage others from pursuing any change of control transaction that holders of our ordinary shares and ADSs may view as beneficial.

As of February 28, 2021, our executive officers, directors, and principal shareholders and their affiliated entities together beneficially own approximately 84.9% of our total outstanding ordinary shares. As a result of the concentration of ownership, these shareholders will have considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Such shareholders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of our ordinary shares and ADSs may view as beneficial.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, or if they adversely change their recommendations regarding our ADSs, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will 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.

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

We have a dual-class ordinary share structure. Our authorized and issued ordinary shares consist of Class A ordinary shares and Class B ordinary shares (with certain shares remaining undesignated, with power for our directors to designate and issue such classes of shares as they think fit). In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares and Class B ordinary shares vote together as a single class except as may otherwise be required by law. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. 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. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into an equal number of Class A ordinary shares.

As of February 28, 2021, the chairman of our board of directors and our chief executive officer, Mr. Shanglue Xiao, beneficially own an aggregate of 949,960,000 Class B ordinary shares, which represent 88.9% of our total voting power. Therefore, Mr. Shanglue Xiao have decisive influence over matters requiring shareholders' approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of our Class A ordinary shares and the ADSs may view as beneficial.

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

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

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

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

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account; provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on 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 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.

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

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. As an ADS holder, you will only be able to exercise the voting rights carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the Class A ordinary shares underlying your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depositary will try to vote the underlying Class A ordinary shares in accordance with these instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw the shares, and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the Class A ordinary shares represented by your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our 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 represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary notice of shareholder meetings sufficiently in advance of such meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the Class A ordinary shares represented by your ADSs 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 vote at shareholders' meetings, which could adversely affect your interests.

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Under the deposit agreement for the ADSs, if you do not vote, the depository will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have instructed the depository that we do not wish a discretionary proxy to be given;
- we have informed the depository 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 depository will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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

The depository 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 there is a distribution, the depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A 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. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository 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 depository. However, the depository 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. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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 an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations in China and substantially all of our assets are located in China. 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.

Your investment in our ADSs may be impacted if we are encouraged to issue CDRs in the future.

The PRC central government once proposed rules that would allow PRC technology companies listed outside China to list on the PRC stock exchanges through the creation of Chinese Depositary Receipts, or CDRs. It is uncertain if and when the CDR mechanism will be finalized and put in place due to evolving PRC government policies. Once the CDR mechanism is in place, we might consider and be encouraged to issue CDRs and allow investors to trade our CDRs on PRC stock exchanges. However, there are uncertainties as to whether a pursuit of CDRs in China would bring positive or negative impact on your investment in our ADSs.

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

Under the deposit agreement, any action or proceeding against or involving the depositary, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding. The depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement, which may include claims arising under the federal securities laws, although the arbitration provisions of the deposit agreement do not preclude you from pursuing claims under the U.S. federal securities laws in federal courts. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder. The state and federal courts sitting in New York generally respect the contractual decision of the parties to submit their disputes to arbitration and such arbitration provisions are generally enforceable under federal law and the laws of the State of New York, subject to certain exceptions, such as corruption, fraud or undue means. Therefore, we believe that the arbitration provision in the deposit agreement is enforceable under federal law and the laws of the State of New York.

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

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

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

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

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

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

We are an exempted company incorporated under the laws of the Cayman Islands with limited liability. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act (2021 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

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

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

Our memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our Class A ordinary shares and the ADSs.

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

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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 will be 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 Stock 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 an exempted 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 Nasdaq's corporate governance requirements; these practices may afford less protection to shareholders than they would enjoy if we complied fully with Nasdaq's corporate governance requirements.

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to Nasdaq's corporate governance requirements. However, Nasdaq 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 Nasdaq's corporate governance requirements. For example, neither the Companies Act of the Cayman Islands nor our memorandum and articles of association requires a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. We intend to rely on home country practice to be exempted from the corporate governance requirement that we have a majority of independent directors on our board of directors. As a result of this and other home country practice we may follow in the future, our shareholders may be afforded less protection than they otherwise would under Nasdaq's corporate governance requirements applicable to U.S. domestic issuers.

We are a "controlled company" within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a "controlled company" as defined under the Nasdaq Stock Market Rules because Mr. Shanglue Xiao, the chairman of our board of directors and our chief executive officer, will own more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and may rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors or that we have to establish a nominating committee and a compensation committee composed entirely of independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

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There can be no assurance that we will not be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year, which could subject U.S. investors in our ADSs or Class A ordinary shares to significant adverse U.S. income tax consequences.

We will be a “passive foreign investment company,” or “PFIC,” if, in any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the average quarterly value of our assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our VIE (including its subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entity but also because we are entitled to substantially all of its economic benefits, and, as a result, we consolidate its results of operations in our consolidated financial statements. Assuming that we are the owner of our VIE (including its subsidiaries) for U.S. federal income tax purposes, and based upon our current and expected income and assets, including goodwill, and the value of our ADSs, we do not believe that we were a PFIC for the taxable year ended December 31, 2020 and we do not expect to be a PFIC for the foreseeable future.

While we do not believe that we were a PFIC for the taxable year ended December 31, 2020 and we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs, fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years. Recent fluctuations in the market price of our ADSs increased our risk of becoming a PFIC. Because the market price of our ADSs and ordinary shares may continue to fluctuate considerably, we cannot assure you of our PFIC status for any taxable year. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets, which may be affected by how, and how quickly, we use our liquid assets. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our VIE for U.S. federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC in any taxable year, a U.S. holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) may incur significantly increased U.S. income tax on gain recognized on the sale or other disposition of the ADSs or Class A ordinary shares and on the receipt of distributions on the ADSs or Class A ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the U.S. federal income tax rules, and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. holder holds our ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or Class A ordinary shares. For more information see “Item 10. Additional Information—E. Taxation —U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

We will incur increased costs and become subject to additional rules and regulations as a result of being a public company.

We are a public company and expect to incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, have detailed requirements concerning corporate governance practices of public companies, including Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. We expect these rules and regulations applicable to public companies to increase our accounting, legal and financial compliance costs and to make certain corporate activities more time-consuming and costly. Our management will be required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Our reporting and other compliance obligations as a public company may place a strain on our management, operational and financial resources and systems for the foreseeable future.

We are named as a defendant in putative shareholder class action lawsuits in the United States, and we may be involved in more class action lawsuits in the future. Such lawsuits could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material and adverse effect on our financial condition and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced operations through Yunji Sharing, and launched our Yunji app in May 2015.

In November 2017, Yunji Inc. was established in the Cayman Islands as our offshore holding company to facilitate financing and offshore listing. Shortly following its incorporation, Yunji Inc. established a wholly-owned subsidiary in Hong Kong, Yunji Holding Limited.

In February 2018, Yunji Holding Limited established a wholly-owned subsidiary in China, Yunchuang Sharing. In April 2018, we gained control over Yunji Sharing through Yunchuang Sharing by entering into a series of contractual arrangements with Yunji Sharing and its shareholders. The contractual arrangements with Yunji Sharing were subsequently amended and restated in December 2018.

In June 2018, Yunji Preferred, was established. In the same month, we gained control over Yunji Preferred through Yunchuang Sharing by entering into a series of contractual arrangements with Yunji Preferred and its shareholders. The contractual arrangements with Yunji Preferred were subsequently amended and restated in December 2018. We have migrated all of our business operations under Yunji Sharing and its subsidiaries to Yunji Preferred and Yunchuang Sharing and their subsidiaries.

On May 3, 2019, our ADSs commenced trading on the Nasdaq Global Market under the symbol “YJ.” We raised approximately US\$109.0 million in net proceeds from the issuance of new shares from the IPO and related over-allotment option arrangement after deducting underwriting commissions and the offering expenses payable by us.

Our principal executive offices are located at 15/F, South Building, Hipark Phase 2, Xiaoshan District, Hangzhou, People’s Republic of China. Our telephone number at this address is +86-571-8168-8920. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Puglisi & Associates, located at 850 Library Avenue, Suite 204, Newark, Delaware 19711. We maintain our web site at www.yunjiglobal.com.

The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC using its EDGAR system.

See “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Capital Expenditures” for a discussion of our capital expenditures.

B. Business Overview

We operate a social e-commerce platform in China using a unique, membership-based model that leverages the power of social interaction. We offer high-quality products at attractive prices and incentivize our members to promote our platform and share our products with their social contacts. We empower prime emerging brands and manufacturers with deep understanding of market trends and customer behavior to produce high-quality innovative products to better meet the demands of our members.

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Our platform has attracted a large and growing base of users, including members and non-members. These users are actively purchasing products on our platform. The number of transacting members on our platform increased from approximately 6.1 million in 2018 to approximately 9.6 million in 2019 and further to approximately 13.3 million in 2020.

Members are the key participants on our platform and drivers of our substantial growth. Our members gain access to a dedicated app that provides access to a curated selection of products, exclusive membership benefits and features, including discounted prices. Previously, a user had to purchase a membership package in order to become a member and enjoy membership benefits. In order to stimulate our users' interest in transacting on our platform and attract more members, in 2019, we provided each non-member user with a free three-month experiential period during which time the user had access to the full spectrum of membership benefits. After the three-month experiential period, the user could become our member if he or she met a certain cumulative spending threshold or certain other requirements during the experiential period or if he or she purchased one of our membership packages. Starting in January 2020, we refined our membership enrollment system by allowing any user to become a member and enjoy membership benefits free of charge for one year by simply registering for an account on the Yunji app. If the user met a certain cumulative spending threshold or certain other requirements during the initial one-year period, the user may extend his or her membership for an extra year. We have ceased allowing users to become members free of charge since April 1, 2021. We currently require new users and renewing members to pay an annual membership fee to become or continue as a member and enjoy membership benefits. In addition, current members who became members through purchasing a membership package are now referred to as our diamond members and enjoy free lifelong membership and membership benefits. Other current members could also become diamond members if they spend RMB398 or more by the earlier of (i) the expiration date of their current membership and (ii) December 31, 2021.

Our members, typically middle-class consumers, are highly social and are interested in discussing and sharing their shopping experiences and various products within their social circles. Members often refer others to become members and are rewarded for doing so. Members can also promote products on various social platforms and are rewarded if those users purchase our products. We also provide support such as training, technology support and customer services to make the process easier for them. As of December 31, 2020, we had accumulated 23.8 million members. We had approximately 13.3 million transacting members on our platform in 2020.

We offer products across a large variety of categories with the aim of catering to the various daily needs of our users and their households. We also add to our product offerings based on feedback and understanding of our members and users based on various analytics. While we offer products from mainstream and emerging brands, we also work with manufacturers directly to produce private labels. In particular, we engage in minority-interest equity investments in high-quality innovative brands and manufacturers, combining their unique manufacturing capabilities and supply channels with our deep understanding of end customers through our various user analytics to develop innovative products specifically designed to meet the demands of our members and users. In this way, we empower our manufacturer and brand partners with products improvement advices based on our understanding of market trends and insights on customer behavior and precise marketing and customer education through our active communities, thereby supporting our partners to achieve further growth.

To complement our existing merchandise sales business under which we acquire products from suppliers and sell them directly to customers, we launched our marketplace business in the first quarter of 2019 whereby third-party merchants can sell products on our platform and pay us commissions on their sales. We attract and select third-party merchants to offer high quality products at attractive prices to our users through our marketplace business and monitor the third-party merchants' performance and activities on our platform closely to ensure that they meet our requirements for authentic products and high-quality logistics and customer service. In each product category in the marketplace model, we will only select a limited number of brands, fostering a healthy competitive environment where we only select and work with the best third-party merchants to offer our members a broad range of carefully curated high-quality products. Products offered through our marketplace business are directly sold and fulfilled by third-party merchants. Our marketplace business allows us to further expand our product offerings, improve the shopping experience on our platform, and attract and retain more members and users.

We are extremely focused on the quality and pricing of our products under both the merchandise sale business and the marketplace business. We have been intentionally maintaining a balance between expanding the product category coverage to meet our users' evolving demand and controlling the number of SPUs in each category to ensure that we only offer curated products with high value and quality to our users. As a result, we offered an average of 6,613, 17,660 and 17,090 SPUs on our platform on a daily basis in December 2018, December 2019 and December 2020, respectively.

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We currently generate revenues mainly by selling products directly on our platform to users, including both members and non-members, and earning commissions on the sales of products by third-party merchants on our platform. Total orders we fulfilled under our merchandise sales business were 153.4 million, 166.6 million and 113.2 million in 2018, 2019 and 2020, respectively. Total orders fulfilled by third-party merchants under the marketplace business were 34.6 million and 65.8 million in 2019 and 2020, respectively. Our total revenues were RMB13,015.2 million, RMB11,672.0 million and RMB5,530.3 million (US\$847.5 million) in 2018, 2019 and 2020, respectively. We recorded net loss of RMB56.3 million, RMB123.8 million and RMB151.7 million (US\$23.2 million) in 2018, 2019 and 2020, respectively.

Our Business Model

We operate a social e-commerce platform in China using a unique, membership-based model that leverages the power of social interaction. We offer high-quality products at attractive prices and incentivize our members to promote our platform and share our products with their social contacts. We operate on our platform both our merchandise sales business, under which we acquire products from suppliers and sell them directly to customers, and our marketplace business that launched in the first quarter of 2019, under which third-party merchants can sell products on our platform and pay us commissions on their sales.

Under our merchandise sales business, we work with a mix of mainstream brands, emerging brands and private labels to offer products across a large variety of categories based on feedback and understanding of our members and users based on various analytics. In particular, we empower quality manufacturers with products improvement advices based on our understanding of market trends and insights on customer behavior and precise marketing and customer education through our active communities, thereby supporting the further growth of our manufacturing partners.

To complement our existing merchandise sales business, we launched our marketplace business in the first quarter of 2019. We attract and select third-party merchants to offer high quality products at attractive prices to our users through our marketplace business and monitor the third-party merchants' performance and activities on our platform closely to ensure that they meet our requirements for authentic products and high-quality logistics and customer service. Products offered through our marketplace business are directly sold and fulfilled by third-party merchants. Our marketplace business allows us to further expand our product offerings, improve the shopping experience on our platform, and attract and retain more members and users.

The decreases in total revenues in 2019 and 2020 were primarily due to decreases in revenues from sales of merchandise as we shifted portions of our merchandise sales business to our marketplace business that we introduced in the first quarter of 2019 whereby third-party merchants can sell products on our platform and pay us commissions on their sales. Revenues generated under the marketplace business were recognized on a net basis, while revenues generated under our merchandise sales business were recognized on a gross basis.

Yunji Platform

We conduct our social e-commerce business primarily through our flagship Yunji app. In addition, we create visually appealing interfaces in mini programs and HTML-5 webpages available in major social platforms in China, including WeChat, QQ, Weibo, to promote our platform and products. Through these promotional channels, potential users can learn about our platform and visit our mobile apps.

Our members can easily share the mini programs and links to HTML-based webpages with their family, friends and other social contacts who may be interested in buying products on our platform. The promotional interfaces visually aid the shopping experience on our platform, and enable viral dissemination of product information on a large scale at low costs.

Yunji App

Our flagship Yunji app is used by our members and non-member users to discover, explore and purchase a wide range of high-quality products at attractive prices and to access other membership features and benefits. We provide services to members and non-member users under the same app so as to open up our platform and provide better user experience. To date, revenue from product sales to non-member users not resulting from promotion made by existing members has been immaterial.

- One can become a member of our platform mainly by accepting invitation from existing members in the form of an invitation link or QR code whereby the invitee can register an account on the *Yunji* app. Previously, the invitee can then become a member through purchasing a membership package consisting of a set of selected products or services and access to the *Yunji* app containing membership benefits and features. In order to stimulate our users' interest in transacting on our platform and attract more members, in 2019, we provided each non-member user with a free three-month experiential period during which time the user had access to the full spectrum of membership benefits. After the three-month experiential period, the user could become our member if he or she met a certain cumulative spending threshold or certain other requirements during the experiential period or if he or she purchased one of our membership packages. Starting in January 2020, we further refined our membership enrollment system by allowing any user to become a member and enjoy membership benefits free of charge for one year by simply registering for an account on the *Yunji* app. If the user meets a certain cumulative spending threshold or certain other requirements during the initial one-year period, the user may extend his or her membership for an extra year. We have ceased allowing users to become members free of charge since April 1, 2021. We currently require new users and renewing members to pay an annual membership fee to become or continue as a member and enjoy membership benefits. In addition, current members who became members through purchasing a membership package are now referred to as our diamond members and enjoy free lifelong membership and membership benefits. Other current members could also become diamond members if they spend RMB398 or more by the earlier of (i) the expiration date of their current membership and (ii) December 31, 2021.
- The member can choose to view our product offerings on our user-friendly app interface by accessing any of our three sales formats, i.e., flash sale (特卖), endorsements (代言) and channels (频道). See “Item 4. Information on the Company—B. Business Overview—Our Product Offerings—Sales Formats.”
- The member can click on the desired product to view detailed product description and consider whether to make the purchase. In addition to the attractive price, the app also offers features to encourage the member to recommend his/her family, friends or other social contacts to purchase our products. In the product listings, the member can see the amount of incentives he/she will earn if someone purchases products via the links he/she shares through his/her social network. Our app provides the member with ready-to-use promotional materials containing product description and reviews, which can be easily posted on social network platforms such as WeChat, QQ and Weibo with the seamless integration of our platform with such social network platforms. The member may also create promotional materials on his/her own and share them with other members.
- The member can access our community feature by clicking on the “Endorsement” (代言) tab at the bottom of the app interface to see what other members are buying and sharing. Our members write product description and reviews, upload photographs and short video clips and host live streaming sessions to express their opinions on, share their experience with and recommend to other members a variety of products. The live streaming sessions, in particular, help our members better understand the various features of products offered on our platform and aid them in their product selection processes, especially for products for which there are many options available such as apparel. From time to time, we organize campaigns featuring popular brands and products, in which members can post product reviews and host live streaming sessions on the *Yunji* app. These campaigns offer an open forum for members to share their experience with the relevant products, making it easier for members to find others with similar shopping interest and help each other in picking out the best fit products.

Our Member Community

Our member community is driven by social connections. Users access our platform mostly through invitation and recommendation by our existing members via their social networks both online and offline. As a result, new users come to us with established trust in their own family, friends and neighbors, as well as shared interests and similar purchasing preferences with our existing members. Therefore, they are more likely to find our platform credible and refer our platform and products through their social networks to other friends, neighbors and family members. We keep close contacts with our member community to learn their changing consumption needs and preferences, which serve as crucial references to product curation and procurement for our supply chain team.

Members

One can become a member of our platform mainly by accepting invitation from existing members in the form of an invitation link or QR code whereby the invitee can register an account on the *Yunji* app. Previously, the invitee can then become a member through purchasing a membership package, which consists of a set of selected products or services and access to the *Yunji* app containing membership benefits and features. Membership packages are offered at a fixed price, depending on the different selection of products or services included in the package. In order to stimulate our users' interest in transacting on our platform and attract more members, in 2019, we provided each non-member user with a free three-month experiential period during which time the user had access to the full spectrum of membership benefits. After the three-month experiential period, the user could become our member if he or she met a certain cumulative spending threshold or certain other requirements during the experiential period or if he or she purchased one of our membership packages. Starting in January 2020, we further refined our membership enrollment system by allowing any user to become a member and enjoy membership benefits free of charge for one year by simply registering for an account on the *Yunji* app. If the user meets a certain cumulative spending threshold or certain other requirements during the initial one-year period, the user may extend his or her membership for an extra year. We have ceased allowing users to become members free of charge since April 1, 2021. We currently require new users and renewing members to pay an annual membership fee to become or continue as a member and enjoy membership benefits. In addition, current members who became members through purchasing a membership package are now referred to as our diamond members and enjoy free lifelong membership and membership benefits. Other current members could also become diamond members if they spend RMB398 or more by the earlier of (i) the expiration date of their current membership and (ii) December 31, 2021. We may further refine and develop our membership enrollment and benefits system to expand our membership base and encourage existing members to extend the length of their memberships by making purchases on our platform. Our members enjoy more attractive prices than non-member users when purchasing products on our platform, and receive incentives for promoting and initiating transactions of our products via their social networks and for inviting new members to our platform. We had a cumulative number of approximately 7.4 million, 13.8 million and 23.8 million members on our platform as of December 31, 2018, 2019 and 2020, respectively.

We provide members with benefits both in the form of Yun-coins and cash incentives. Through these benefits, we attract members to our platform and encourage and motivate our members to share product reviews and promotional materials of our products via their social networks. Members receive units of Yun-coin, each equivalent to RMB1.00, when they join as a member, when they successfully refer a new member, and from time to time as a form of coupon. Additionally, members enjoy exclusive discounts when purchasing products on our platform, and receive referral incentives for products sold via the links they share through their social networks. For each transaction completed from the promotion by a member, such member earns a certain percentage of the listed price, with the percentage being determined based on the market price and margin of the product. Additionally, we may provide extra incentive to a member depending on the number of completed promotions or purchases made as a result of the member's referral. The referral incentive is allocated to the member's account immediately following payment for the transaction, and may be used by the member after seven days following the receipt of product by the buyer. We also provide members with a variety of tools and support to enable them to promote our products via their social networks, including ready-to-use product promotional materials, online and offline training to facilitate product sales, and centralized order fulfillment, product delivery and real-time customer service.

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Our members generally come from middle-class households and make purchase decisions for their respective households. The majority of our members are female. Our members typically spend much time on social networks and take an interest in discussing trends and sharing shopping experience and product information among their social contacts both online and offline. We offer social experience as an integral part of our member experience. Our members not only enjoy shopping as supported by membership benefits and features on our platform, but also can become more involved in the promotion of our products and platform and the building of our member community. Many of our members promote our products via their social networks, and some of them become influential opinion leaders within their social networks affecting the consumption preferences of many others. Our members also form groups and engage in interactive activities both online and offline based on their existing social network, geographic locations and interests, which allow them to obtain relevant product information more easily, establish trust relationships amongst themselves and keep them engaged with our platform. We facilitate member groups to provide support to members and enable further communication among members. The grouping system helps us enhance member engagement and promote community value. In particular, we encourage members to form neighborhood-based groups based on geographic proximity which allows for easier and more frequent organization of offline events to foster social interaction and enhance the trust relationship amongst our members. The majority of our offline events were not intended to drive product sales or promotions, but instead to provide our members with opportunities to learn something new, share their experience and better interact with each other. As a result, our offline events have attained positive feedback from our members and have played a key part in the continual enhancement of member engagement and loyalty on our platform.

Driven by social interaction, our platform has accumulated a highly active member base. We had approximately 6.1 million, 9.6 million and 13.3 million transacting members on our platform in 2018, 2019 and 2020, respectively. In 2020, 50% of transacting members promoted products through their social networks where such promotion resulted in order placement on our platform. In the same period, 97% of our GMV were from purchases that our members made and we had approximately 77% repeat purchase rate from our transacting members.

Service managers

We outsource some member services to third-party service companies and they hire service managers based on the standards we provide in our agreements with the third-party service companies. Most of service managers are also our members. Third-party service companies select service managers based on their capability in facilitating members' product sales and in training members, and assign them to provide services to a group of members. The member groups operate both online on social network platforms such as WeChat, QQ and Weibo and offline through trainings and experience-sharing gatherings hosted by our neighborhood-based groups, generating diversified forms of interactive social experiences as an integral part of our member benefits.

Since 2019, we have started to promote the use of live streaming to better introduce our products to our members and users and promote further social sharing. Accordingly, we have on-boarded a group of service managers with the appropriate skills to host the different streaming rooms introducing and selling the products on our platform. Other service managers could share the live streaming rooms to members, and if a member then completes an order through one of the streaming rooms, both the live stream host and the service manager that referred the streaming room to the purchasing member will receive a sale commission.

Starting in the second quarter of 2020, we also began to develop professional vertical product category communities based on our insights on the members' interests and service managers' capabilities. For each vertical product category, we bring in lecturers experienced in marketing and training in such product category to provide our service managers with highly relevant training session that help to improve the quality and the authenticity of the product-related content produced by these service managers and thus increase engagement of our members. Currently, we have established professional vertical product category communities for food, beauty and healthcare categories and achieved high user engagement in those communities.

As of December 31, 2020, our members were served by more than 80,000 service managers. Service managers provide training and support to our members, including teaching members how to use our apps and platform, responding to questions from members on a daily basis, and organizing both online and offline training courses to share their sales experience. Service managers also facilitate members' product sales, including monitoring and collecting member feedback on a real-time basis, designing and implementing marketing strategies for popular products in the member group, and helping to address member queries related to our products.

Non-Member Users

Through our members' word-of-mouth referral via their social networks both online and offline, our platform has garnered trust and attracted a large and growing base of users. Users actively purchase products on our platform. The number of buyers in 2018, 2019 and 2020 were approximately 23.2 million, 22.5 million and 17.4 million, respectively. Since our platform is recommended by family, friends and neighbors, users may find us more credible and have more confidence in the quality of products offered on our platform.

Our Product Offerings

We offer broad coverage of product categories from mainstream brands, emerging brands and private labels on our platform under the combination of our merchandise sales business and our marketplace business with an aim of catering to the various daily needs of our users and their households, including beauty and personal care, healthcare products, household goods, cloths, food and fresh produce, computer and electronics, apparel, bags and cases, baby and maternity products and home appliances. Our top product categories that each contributed to more than 10% of our GMV are (i) beauty and personal care, computer and electronics, food and fresh produce, and apparel, bags and cases in 2018, (ii) beauty and personal care, food and fresh produce, household goods, apparel, bags and cases and online virtual services in 2019, and (iii) beauty and personal care, food and fresh produce, apparel, bags and cases, computer and electronics and online virtual services in 2020, while each of the other product categories contributed less than 10% of our GMV in each of 2018, 2019 and 2020. Within each product category, we offer carefully curated items meeting the preferences of our users with attractive pricing. In December 2018, December 2019 and December 2020, we offered an average of 6,613, 17,660 and 17,090 SPUs for sale on our platform on a daily basis, respectively. In December 2019 and December 2020, products offered under our marketplace business accounted on average for 82% and 87% of SPUs for sale on our platform on a daily basis, respectively.

Product and Supplier Selection

For our merchandise sales business, our product procurement team, consisting of 213 employees as of December 31, 2020, possess extensive knowledge and understanding of existing and potential users' needs and preferences, and our big data capabilities enable us to better analyze market trends and understand customer behavior. We reflect such knowledge and understanding in product selection and when working with our suppliers. This customer-to-manufacturer (C2M) model allows us to source products in response to evolving customer needs and preferences, and enable us to help our suppliers, especially our manufacturing partners, provide products better designed for end customers and manage regional inventory storage. From time to time, we are directly involved in the product design process of our manufacturing partners. We review and continually monitor the performance of each SPU based on a few key dimension, in particular revenue contribution and margin, and suspend and replace SPUs with poor performance each month.

We believe it is crucial for us to carefully select the suppliers with high-quality product offerings, and empower them with our understanding of market trends and insights on customer behavior to better design products meeting customer preferences. We have adopted a set of selection guidelines for identifying potential suppliers. Our key supplier selection criteria include manufacturing capability, reputation, sales records among consumers similar to those in our user community, and product offerings. Once a potential supplier is identified, we conduct due diligence reviews on its qualifications. We generally choose to work with reputable brand owners with good track records and high-quality product offerings. For manufacturing partners producing private labels, we conduct on-site visits and examine candidates based on our selection criteria, including the relevant qualifications and governmental permits. We also conduct detailed factory auditing on the supplier's manufacturing capability and production process to control product quality.

We follow similar selection guidelines for identifying potential third-party merchants. We conduct careful diligence and select third-party merchants in our marketplace business in terms of scale, reputation and brand recognition, sales records among consumers similar to those in our user community, logistics and customer service capabilities, and product offerings to ensure that the merchants are able to offer high quality products at competitive prices, possess in-depth knowledge of the current trends in their particular product categories and have the operation flexibility and logistics and customer service efficiency to meet our members' demands. Furthermore, in each product category in the marketplace model, we will only select a limited number of brands in each category and we will replace the underperformers on a quarterly basis with newly curated brands in our marketplace model. In this way, we are committed to selecting and working with only the best third-party merchants, fostering a healthy competitive environment where the merchants can establish deep collaborations with us in our marketplace business to offer our members a broad range of carefully curated high-quality products at attractive prices.

Sales Formats

We offer products in three sales formats—flash sale, endorsements and channels—through each of which users could view our product offerings.

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Flash sale (特卖). We organize flash sale events every day to sell a finite quantity of discounted products for a limited period of time beginning at 9:00 a.m. (Beijing time) each day. To foster user interest, we periodically analyze historical data, seasonality and user feedback to determine the types of products we should offer for different hours and days. In addition, we carefully adjust our product mix to achieve a balanced and complementary product offering across different product categories so as to maximize sales.

Endorsements (代言). We provide our members with community features to see what other members are buying and sharing, including product reviews, photos and short videos. In 2019 we introduced the live streaming function where members can host live video broadcasts to express their opinions on, share their experience with and promote to other members products on our platform. During the live streaming session, as the host member is sharing his/her experience and interacting with other users viewing the session, direct links to the products being discussed are displayed on the screen to facilitate convenient purchasing of the products. Similar to product referrals made by members via their social networks, the live streaming hosts receive referral incentives for products sold via their live broadcasts.

Channels (频道). We organize all of our product offerings on our *Yunji* app based on product characteristics such as category, functionality and brand into different channels on our *Yunji* app to facilitate easy browsing by our users. Specifically, we operate category-based channels such as food, beauty and personal care, apparel and overseas products.

Pricing

We strive to offer attractive pricing for all the products offered on our platform. We make continual efforts to maintain and improve an efficient cost structure and create incentives for our suppliers and our third-party merchants to provide us with competitive prices. For the products with recognized brand names, we set our prices to be competitive with those on other major e-commerce platforms in China. We typically negotiate with our suppliers and our third-party merchants for discounted prices based on our large sales volume and other value propositions. For the products we offer with private labels, we set our prices to be not only appealing to the users but also satisfactory to us in terms of margin contribution. For these products, we typically have more discretion in setting the retail price and more leverage in negotiating with our manufacturing partners.

We also offer a selection of discounted products on special occasions, such as the anniversary of the founding of our company on May 16 and China's new online shopping festival on November 11, and on important holidays. We also hold daily promotions through flash sale events for selected products for a limited period of time. Special promotions attract bargain hunters and give our users an additional incentive to visit our platform regularly.

Quality Control

We have a dedicated team and stringent quality assurance and control procedures to ensure product quality and prevent counterfeit products. We carefully scrutinize the products before listing them on our platform. We diligently examine the product sourcing channel and qualification of our suppliers and our third-party merchants, carefully inspect products delivered to the warehouses, and reject or return products that do not meet our quality standards or the purchase order specifications. We also reject any products with broken or otherwise compromised packaging. In addition, we inspect all products before shipment to our users and conduct random periodic quality checks on our inventory. For products sold by third-party merchants whose order fulfillment is handled by the third-party merchants themselves and are not processed by our logistics centers, we carefully scrutinize the product sourcing channels of the third-party merchants and impose penalties, typically in amounts equal to several times the value of the relevant products, for any quality non-compliance that we discover through customer feedback.

Our Suppliers and Third-Party Merchants

Seeking to offer a balanced mix of products of mainstream brands, emerging brands and private labels on our platform, we provide values to a variety of suppliers and third-party merchants. We help owners of mainstream brands expand their business in China or certain specific regions in China cost effectively. We often cooperate with third-party mainstream brands to help launch and market their new products on our platform, providing feedback on the new products based on various user analytics and effectively introducing the new products to our members and users through our active social communities. We also support owners of emerging brands in reaching a wider customer base and gaining better recognition and reputation. We are particularly focused on establishing partnerships with top emerging brands that produce quality products in different industries in order to generate more high quality *Yunji* exclusive products that appeal to our customers and accelerate our supply chain differentiation. When forming such partnerships, we are focused on selecting emerging brands that sell different categories of fast-moving consumer goods with high turnover, repurchase rates and gross profit margins and that have annual sales in excess of RMB100 million, such as those in the healthcare and cosmetics industries. For example, in 2020, we partnered with a top healthcare emerging brand to develop an exclusive weight loss dietary supplement which achieved over 600 million in sales through the effective promotion by our service managers on our platform. When collaborating with the emerging brands to develop new products, we also employ user feedback to improve product features and strive to roll out new versions of products regularly to keep up with users' evolving tastes.

In addition, we engage in minority-interest equity investments in high-quality manufacturers and innovative brands, combining their unique manufacturing capabilities and supply channels with our deep understanding of end customers through our various user analytics to develop innovative products specifically designed to meet the demands of our members and users, such as *Yunji* exclusive products. In addition to financial support, we also help to channel traffic to the products produced by such joint venture brands to help our members and users gain easy access to these quality products while also promoting the growth of such brands. In this way, we empower our manufacturer and brand partners with products improvement advices based on our understanding of market trends and insights on customer behavior and precise marketing and customer education through our active communities, thereby supporting our partners to achieve further growth. Our suppliers and third-party merchants included merchants of mainstream brands and emerging brands and manufacturing partners we cooperate with. Our private labels include Solo Life (素野), Yuan Sheng Huang, Unibeaauty and P&S, among others. As our private labels continue to grow and expand, some of their products are also now offered and sold on other third-party online platforms such as Tmall and Douyin.

Starting in 2019, we have been particularly focused on developing our crafted sale cooperation with suppliers, in which we collaborate with leading global manufacturers to incubate products and brands distinguishable with the following characteristics: high quality, attractive design, compelling value and high throughput. Through the crafted sales cooperation with suppliers, we are able to cultivate brands with individual "super products" capable of generating millions or even billions of RMB in sales, increase incomes for our service managers, provide more value to our members, and improve the profitability of our platform. For example, through our crafted sales cooperation with suppliers, we have empowered multiple brands in the fruit category in 2019 to achieve million-dollar sales volume on a per-day and per-SKU basis.

We generally enter into framework supply agreements with suppliers and third-party merchants annually based on our standard form. We constantly communicate with our suppliers to keep them informed of any changes to the inventory levels of their products in order for them to timely respond to our sales demands. With the exception of third-party merchants outside of China for whom we handle the logistics and delivery process within China, substantially all of the third-party merchants under the marketplace business take responsibility for the procurement, storage and management of their own inventory. Before hosting a major sales event, we provide advance notice to our suppliers and third-party merchants so that they can prepare ample stock to meet a potential surge in demand and increased purchases. Our standard form agreement requires suppliers and third-party merchants to represent that their goods are authentic and from lawful sources and do not infringe upon the intellectual property rights or other lawful rights of third parties and to pay us liquidated damages for any breach.

Fulfillment and Customer Service

We deliver a compelling customer experience by fulfilling orders quickly and accurately. We provide centralized and comprehensive fulfillment and customer service to users regardless of whether they purchase products on our apps directly or through the introduction of our members. Our fulfillment infrastructure for the prompt receipt, storage and shipment of products is primarily comprised of a nationwide warehouse and delivery network, which we operate mainly through collaboration with contracted third-party logistics service providers. We fulfilled approximately 153.4 million, 166.6 million and 113.2 million orders in 2018, 2019 and 2020, respectively, under our merchandise sales business.

Products offered through our marketplace business are directly sold and fulfilled by third-party merchants, who take responsibility for the entire fulfillment and customer service process. We closely monitor the speed and service quality of the third-party merchants through customer surveys and feedbacks from our members to ensure member satisfaction.

Fulfillment Process

Our products are strategically stored at warehouses we use and the suppliers' warehouses. The volume of products to be stored at the warehouses and the choice of warehouse to be placed are determined based on customer demand. When a user places an order and makes payment, our warehouse management system automatically processes the order and assigns it to the warehouse or warehouses with the appropriate inventory. The third-party logistics service provider that we have hired in the region picks up the order at the warehouse to make the delivery. Once the order has shipped, our warehouse management system automatically updates the inventory level for each product in the order, ensuring that additional inventory will be ordered as needed. For some of our products that are not stored at the warehouses, such as fresh produce or home appliances, the third-party logistics service providers will pick up the order from the facilities of the respective suppliers to make the delivery. To further enhance inventory accountability and security, we track our inventory at all stages of the receiving and order fulfillment process. Our users can track the shipping status of their orders through our platform at each step of the process.

Payment

We provide our users with a number of payment options, including credit or debit cards or e-wallets. We cooperate with major third-party online payment platforms such as Alipay, WeChat Pay, JD Pay and UnionPay to provide these options.

Warehouses

We strategically select the locations for warehouse facilities and choose the type of warehouse facilities at these locations based on the density of orders we expect to be fulfilled. As of December 31, 2020, warehouse facilities in our fulfillment network included three central warehouses, 14 regional warehouses, with an aggregate gross floor area of approximately 107,800 square meters in 11 cities. As third-party merchants under our marketplace business handle the fulfillment logistics for the products sold on our platform themselves, demand for expansion of our fulfillment infrastructure has assuaged. We have started and will continue integrating and consolidating our warehouse facilities to enhance the efficiency in fulfilling orders placed from all areas in China under our merchandise sales business.

We cooperate with third-party vendors to operate our warehouse facilities. As of December 31, 2020, all of the 17 warehouses we use were operated by third-party vendors. We establish our operating standards under our operating agreements with third-party vendors and typically renew these agreements on an annual basis.

At each warehouse location, inventory is bar-coded and tracked through our warehouse management system, allowing real-time monitoring of inventory levels across our fulfillment network and item tracking at each warehouse location. We repackage all products to our standardized boxes for optimized storage at the warehouses. Our warehouse management system is specifically designed to support the frequent curated sales events on our platform and the large volume of inventory turnover.

Delivery

We deliver products to users across China through collaboration with third-party logistics service providers. The warehouses have a dispatch system to more effectively manage the pick-up and delivery services by third-party logistics service providers. We closely monitor the speed and service quality of the third-party logistics service providers through our internal tracking system as well as customer surveys and feedbacks to ensure customer satisfaction.

To ensure timely delivery of our products, third-party logistics service providers are bound by the terms of cooperation agreements with us to deliver the products within the stipulated timeframe that we had promised to our users at the time of purchase. We leverage our large-scale operations and reputation to obtain favorable contractual terms from third-party logistics service providers. To reduce the risk of reliance on any single logistics service provider and to ensure timely delivery at all times, we maintain close working relationships with several leading third-party logistics service providers in China and typically contract with two or more local delivery companies in each major city or region. We typically negotiate and enter into agreements on an annual basis.

Customer Service

Providing superior customer service is our high priority. Our commitment to users is reflected in the high service levels provided by our customer service staff as well as in our product return policy.

Customer service center. We have a customer service center in Hefei, Anhui to provide real-time assistance to our users. Users can communicate with online representatives through our mobile apps. We train our customer service representatives to answer user inquiries and proactively educate potential users about our products and promptly resolve customer complaints. We typically enter into service agreements on an annual basis with third-party BPO companies to provide customer service. As of December 31, 2020, 57.0% of our customer service representatives were outsourced from third-party BPO companies and 43.0% were our employees.

Product returns. We generally allow users to return unused goods within seven days, counting from the date when the user receives the product. Once a user submits a return application request on our mobile app, our customer service representative will review and process the request or contact the user through our mobile app or by phone if there are any questions relating to the request. Upon receipt of the returned product, we credit the user's payment account with the purchase price. The same policies apply to products sold through our marketplace business. We believe our product return policy helps build user trust and increase user loyalty.

Technology

Our smooth operation and rapid growth are supported by our technological capabilities. Our technology team, coupled with our proprietary technology and infrastructure and the large volume of data generated and collected on our platform, have created opportunities for continuous improvements in our technology capabilities. The key components of our technology include big data analytics and artificial intelligence (AI), which are also the focus of our research and development efforts.

Big Data and Artificial Intelligence

We are able to obtain feedback timely from users on our platform, and gain access to a large volume of transaction and user behavioral data. We develop and leverage big data analytics to enhance the accuracy of user behavior predictions and user profiling, optimize targeted marketing and platform operations, and deliver best-in-class user experience. We utilize AI and machine learning technologies to conduct modeling exercises and data mining in order to gain actionable and effective insights from the data. For example, we not only look into the basic order information but also user behavioral data, and then build predictive and statistical models based on the data we have accumulated. Our big data capabilities enable us to better analyze market trends and understand customer behavior, and we reflect such understanding in SPU selection and when working with our suppliers and third-party merchants. This customer-to-manufacturer (C2M) model allows us to source products in response to evolving customer needs and preferences, and enable us to help our suppliers and third-party merchants, especially our manufacturing partners, provide products better designed for end customers and manage regional inventory storage.

With access to a massive amount of data, we believe we are in a strong position to capitalize on the use of AI and machine learning technologies in the new e-commerce arena. To date, we have applied various AI and machine learning technologies on our platform in multiple areas, such as personalization of product recommendation, intelligent inventory management, automated risk assessment, automated fulfillment process, and automated question answering. We will continue to explore the application of the big data and AI technologies on our platform and use them in more areas such as intelligent customer services to enhance user experience.

Technology Infrastructure

We build our technology infrastructure to support our business in a cost-effective manner. We have built a reliable and smart network infrastructure to ensure high availability and a low risk of downtime. We currently utilize third-party clouds in China to host our network infrastructure, renting public servers and bandwidth.

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We focus on maintaining and enhancing the reliability, stability and scalability of our service-oriented technology infrastructure. Our technology infrastructure enables us to accurately process and fulfill increasingly large numbers of orders at peak periods while maintaining processing speed and quality consistency, as well as powering full supply chain visibility and control. For example, we have adopted a micro-service architecture that is built on top of our technology infrastructure to support horizontal scaling at all times. We have also designed a complex transaction processing system and supply chain management system which can support the continued growth in our business.

Our Technology Team

We invest significant resources in research and development to improve our technology and develop solutions supporting our platform operations. We incurred RMB143.6 million, RMB315.2 million and RMB202.8 million (US\$31.1 million) of technology and content expenses in 2018, 2019 and 2020, respectively.

Our technology team primarily consists of four groups. We have a team of engineers who focus on the development and implementation of new functions or features of our transaction and supply chain management systems. We have a team of research and development personnel who focus on technology development and providing user support services. A team of data scientists who leverage big data analytics to support our business decision making. We also have a team of IT personnel who provide internal system maintenance and system operations and development. As of December 31, 2020, our technology team had a total of 333 personnel.

Data Privacy and Security

We are committed to protecting our users' personal information and privacy. We have established and implemented a strict platform-wide policy on data collection, processing and usage. We collect personal information and other data that is related to the services we provide and use the collected data for our platform operations, all with users' consent.

To ensure the confidentiality and integrity of our data, we maintain a comprehensive and rigorous data security program. We anonymize and encrypt confidential personal information and take other technological measures to ensure the secure processing, transmission and usage of data. We have also established stringent internal protocols under which we grant classified access to confidential personal data only to limited employees with strictly defined and layered access authority.

We back-up our user and other forms of data on a daily basis in separate and various secured data back-up systems to minimize the risk of data loss. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. Our back-end security system is capable of handling malicious attacks each day to safeguard the security of our platform and to protect the privacy of our users.

See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our business generates and processes a large amount of data, and we are required to comply with PRC laws relating to data privacy and security. The improper use or disclosure of data could have a material and adverse effect on our business and prospects" and "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Failure to protect confidential information of our users and network against security breaches could damage our reputation and brand and substantially harm our business and results of operations."

Intellectual Property

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 trademark, copyright and patent law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of December 31, 2020, we owned 61 computer software copyrights in China relating to various aspects of our operations and maintained 757 trademark registrations inside China and 23 trademark registrations outside China. As of December 31, 2020, we had 968 trademark applications inside China and 33 outside China. As of December 31, 2020, we had 16 patent applications pending in China. As of December 31, 2020, we had registered 41 domain names, including www.yunjiglobal.com, among others.

Marketing

We have been able to build a large base of loyal users through, among other means, word-of-mouth referrals via users' social networks and organization of offline interactive events, which we intend to utilize to further grow our user base and increase member stickiness. Our ability to do so depends on whether we can continue to provide superior user experience and promote and enhance our community value. To enhance our brand awareness, we also have engaged in offline marketing and brand promotion activities. For example, we host offline promotion campaigns for the shopping festival on November 11 each year in major cities in China.

We maintain official accounts on various social networking and live streaming platforms in China to continuously engage and communicate with our members and to promote awareness of our brand. We utilize diverse content formats for our online marketing, such as short-form video and live streaming, which enables us to better present and promote our products sourced from our quality supply chain, especially our private label products and products developed through our collaboration with emerging brands. We also engage passionate members and service managers as well as KOLs to host live streaming sessions to promote our products on various live streaming platforms. In particular, we have established online store and video account on Douyin's e-commerce business and will utilize the live streaming platform to introduce and promote more quality products sourced from our supply chain to a broader range of consumers. In addition, we also organize product category-specific educational live streaming sessions through our official accounts to help consumers gain general knowledge that will help them make well-informed consumption decisions.

Competition

The e-commerce industry in China is intensely competitive. Our competitors include all major e-commerce companies in China, and other internet companies in China that engage in social e-commerce businesses.

We anticipate that the e-commerce industry 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 compete primarily on the basis of the following factors: (i) differentiated, reliable and flexible supply chain with customer-to-manufacturer (C2M) capability and strong manufacturing partner network, (ii) our ability to attract, cultivate and retain a large number of service managers who are highly effective in and passionate about fostering our close-knit community and promoting our products, (iii) our ability to attract and retain a large number of members and other users and establish strong community bonding and maintain member loyalty through social interaction effectively, (iv) our full-serviced platform that enables users to buy products easily, and (v) advanced technology infrastructure.

We believe that we are well-positioned to effectively compete on the basis of the factors listed above. However, some of our current or future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger user base or greater financial, technical or marketing resources than we do, and they may also adopt membership-based or social network-driven e-commerce models or other similar models on their platforms.

Seasonality

We experience seasonality in our business, reflecting a combination of seasonal fluctuations in internet usage and traditional retail seasonality patterns. For example, we generally experience less user traffic and purchase orders during the Chinese New Year holiday season in the first quarter of each year. Furthermore, sales are significantly higher in the fourth quarter of each calendar year than in the preceding three quarters. E-commerce companies in China hold special promotional campaigns on November 11 each year that boost sales in the fourth quarter relative to other quarters, and we hold a special promotional campaign in the second quarter of each year, on May 16, to celebrate the anniversary of the founding of our platform. All other components of our operating cost and expenses generally continued to increase as we grew our business and expanded our user base. Overall, the historical seasonality of our business has been relatively mild due to our rapid growth but may increase further in the future. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased food safety insurance for our products. In addition to providing social security insurance for our employees as required by PRC law, we also provide supplemental commercial medical insurance, which covers life insurance, for our employees upon request. We do not maintain business interruption insurance, nor do we maintain product liability insurance or standalone key-man life insurance.

Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business and operations in China.

Regulations Relating to Foreign Investment

Guidance Catalogue of Industries for Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, or the Guidance Catalog, which was promulgated and is amended from time to time by the Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission, or NDRC. The Guidance Catalog lays out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: “encourage,” “restricted” and “prohibited.” Industries not listed in the catalog are generally deemed as falling into a fourth category “permitted” unless specifically restricted by other PRC laws. In addition, in June 2019 the MOFCOM and the NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the 2019 Negative List, which became effective on July, 2019 to amend the Guidance Catalog. In June 2020, the MOFCOM and the NDRC jointly promulgated the Special Management Measures (Negative List) (2020), or the 2020 Negative List, which became effective and replaced the 2019 Negative List in July 2020. In June 2019, MOFCOM and the NDRC also jointly promulgated the Encouraged Foreign Investment Industry Catalog (2019), or the 2019 Encouraged List, which became effective and replaced the “encouraged” category under the Guidance Catalog. In December 2020, MOFCOM and the NDRC also jointly promulgated the Encouraged Foreign Investment Industry Catalog (2020), or the 2020 Encouraged List, which became effective and replaced the 2019 Encouraged List. Industries that are not listed in either the 2020 Negative List or the 2020 Encourage List are permitted areas for foreign investments, and are generally open to foreign investment unless specifically restricted by other PRC regulations. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects may be subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Foreign investment in value-added telecommunications services (except for e-commerce) falls within the 2020 Negative List and the percentage of foreign ownership cannot exceed 50%. As a result, foreign investors can only conduct investment activities through equity or contractual joint ventures with certain shareholding requirements and approvals from competent authorities. PRC partners are required to hold the majority interests in the joint ventures and the joint ventures are required to obtain approval from MOFCOM and MIIT for their incorporation and business operations.

In order to coincide with the implementation of the Foreign Investment Law and the Implementing Regulations of the Foreign Investment Law, the MOFCOM and the SAMR promulgated the Measures for Reporting of Information on Foreign Investment on December 30, 2019, effective from January 1, 2020, which provides that foreign investors or foreign-invested enterprises, or the FIEs, shall submit investment information by submitting initial reports, change reports, deregistration reports, and annual reports through an enterprise registration system and a national enterprise credit information publicity system. Announcement of the Ministry of Commerce [2019] No.62—Announcement on Matters Concerning the Reporting of Information on Foreign Investment promulgated by MOFCOM on December 31, 2019 and Circular of the State Administration for Market Regulation on Effective Work on Registration of Foreign-invested Enterprises for the Implementation of the Foreign Investment Law promulgated by SMAR on December 28, 2019 further refine the related rules.

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises promulgated by the State Council in December 2001 and most recently amended in February 2016, or the FITE Regulations, the ultimate foreign equity ownership in a value-added telecommunications services provider may not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the Ministry of Industry and Information Technology, or MIIT, and MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. 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 telecommunications business operating licenses to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds a telecommunications business operating licenses 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 telecommunications business illegally in China.

Pursuant to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of FIEs, most of which are Sino-foreign joint ventures engaging in the value-added telecommunication business. In June 2015, MIIT issued the Circular on Removing the Restrictions on Equity Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-Commerce) Business to amend the relevant provisions in the FITE Regulations, allowing foreign investors to own more than 50% of equity interest in an operator that “conducts e-commerce” business. However, other requirements provided by the Foreign Investment Telecommunications Rules (such as the track record and experience requirement for a major foreign investor) still apply, and foreign investors are still prohibited from holding more than 50% of equity interest in a provider of other subcategories of value-added telecommunications services.

To comply with PRC laws and regulations, we rely on contractual arrangements with our VIE to operate our e-commerce business in China. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our VIEs and their respective shareholders for a large portion of our business operations, which may not be as effective as direct ownership in providing operational control.”

Foreign Investment Law

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which took effect on January 1, 2020 and replaced three existing laws on foreign investments in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. On December 26, 2019, the State Council promulgated the Implementation Rules of Foreign Investment Law and the Supreme People’s Court issued the Interpretations on Certain Issues Regarding the Application of Foreign Investment Law, both of which took effect on January 1, 2020. The Foreign Investment Law embodies 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 invested enterprises in China. The Foreign Investment Law establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

According to the Foreign Investment Law, “foreign investment” refer to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country (collectively referred to as “foreign investor”) within China, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other like rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) investments in other means as provided by laws, administrative regulations, or the State Council.

According to the Foreign Investment Law, the State Council will publish or approve to publish a catalogue for special administrative measures, or the “negative list.” The Foreign Investment Law grants national treatment to foreign invested entities, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” Because the “negative list” has yet to be published, it is unclear whether it will differ from the current Special Administrative Measures for Market Access of Foreign Investment (Negative List). The Foreign Investment Law provides that foreign invested entities operating in foreign restricted or prohibited industries will require market entry clearance and other approvals from relevant PRC governmental authorities.

Furthermore, the Foreign Investment Law provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the Foreign Investment Law.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within China, may be freely remitted inward and outward in RMB or a foreign currency. Also, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements.

Licenses, Permits and Filings

The PRC government extensively regulates the telecommunications industry, including the internet sector. The State Council, MIIT, MOFCOM, SAMR, the former State Administration of Press, Publication, Radio, Film and Television (which has been replaced by the NRTA), and other relevant government authorities have promulgated an extensive regulatory scheme governing telecommunications, on-line sales and e-commerce. New laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have, and will require us to 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 the telecommunications, on-line sales and e-commerce.

We are required to hold certain licenses and permits and to make certain filings with the relevant PRC governmental authorities in connection with various aspects of our business, including the following:

Value-Added Telecommunication Business Operating Licenses

The PRC Telecommunications Regulations, or the Telecom Regulations, which were issued by the State Council in 2000 and were most recently amended in February 2016 are the primary governing law on telecommunication services. The Telecom Regulations set out the general framework for the provision of telecommunication services by PRC entities. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between “basic telecommunications services” and “value-added telecommunications services.” A “Catalog of Telecommunications Business” was issued as an attachment to the Telecom Regulations to categorize telecommunications services as basic or value-added. In December 2015, MIIT released the Catalog of Telecommunication Business (2015 Revision), or the 2015 Telecom Catalog, implemented in March 2016. Under the 2015 Telecom Catalog, both the online data processing and transaction processing business (i.e., operating e-commerce business) and information service business, continue to be categorized as value-added telecommunication services.

In March 2009, MIIT issued the Administrative Measures for Telecommunications Business Operating Permit, or the Telecom Permit Measures, which was implemented in 2009 and most recently amended in 2017. Pursuant to the Telecom Permit Measures, the operation scope of the value-added telecommunication business operating license, or VATS license, shall detail the permitted activities of the enterprise to which it is granted. An approved telecommunication services operator shall conduct its business in accordance with the specifications recorded on its VATS License. The VATS Licenses can be further categorized based on the specific business operations permitted to be carried out under such licenses, including among others, the VATS Licenses for internet information services, or the ICP License, and the VATS License for electronic data interchange business, or the EDI License. In addition, a VATS License holder is required to obtain approval from the original permit-issuing authority prior to any change to its shareholders, business scope or other information recorded on such license. In February 2015, the State Council has issued the Decisions on Cancelling and Adjusting a Batch of Administrative Approval Items, which, among others, replaced the pre-registration approval requirement for telecommunications business with post-registration approval requirement.

In September 2000, the State Council promulgated the Administrative Measures on Internet Information Services, or the Internet Measures, most recently amended in January 2011. Under the Internet Measures, “internet information services” refer to the provision of information through the internet to online users, and are divided into “commercial internet information services” and “non-commercial internet information services.” Commercial internet information services operators shall obtain an ICP License, from the relevant government authorities within China.

Each of Jishang Preferred, a wholly-owned subsidiary of Yunji Preferred, one of our VIEs, and Zhejiang Jixiang E-commerce Co., Ltd., or Zhejiang Jixiang, a wholly-owned subsidiary of Jishang Preferred, holds a VATS License for online data processing and transaction processing business (operating e-commerce, excluding internet finance and e-hailing services) and internet content-related services (excluding information search and inquiry services and real-time interactive information services). Hangzhou Chuanchou, one of our VIEs, hold a VATS License for internet content-related services (excluding information search and inquiry services and real-time interactive information services).

Filing by Third-Party Platforms Providers for Publications Online Trading Services and by Sellers of Publications via Online Trading

We are also subject to regulations relating to online trading platform services provided for distribution of publications including books and audio-video products. According to the Provisions on the Administration of the Publication Market, or the Publication Market Provisions, which were jointly promulgated by General Administration of Press and Publication and MOFCOM in May 2016 and implemented in June 2016, an online trading platform that provides services for the distribution of publications shall complete record-filing formalities with the competent publication administrative authority, and is required to examine the identity of a dealer distributing publications through the platform, verify its business license and Publications Operation Permit, establish a mechanism to prevent and control the trading risks and take effective measures to rectify illicit actions conducted by the dealers distributing publications on the platform. If any entity subject to such requirements fails to complete the filing or fails to fulfill the relevant duties of examination and management in accordance with the Publication Market Provisions, it may be subject to an order to cease illegal acts and a warning by the competent publication administrative authority, as well as a penalty not exceeding RMB30,000. In practice, such filing has not been open for trading platform services provided through mobile applications like *Yunji* app. Jishang Preferred will submit its record-filing application with the competent authority for providing services for distribution of publications as soon as practical.

Pursuant to the Publication Market Provisions, an entity engaged in the wholesale or retail of publications shall obtain an operation permit for publications. If an entity fails to obtain operation permit for publications, it may be subject to an order to cease illegal acts, fines or confiscation of illegal gains and devices, equipment used for the illegal business operation. In cases where an entity that is engaged in the distribution of publications via the internet or other information networks within the approved business scope has obtained the operation permit for publications, such entity shall complete its record-filing formalities with the publication administrative department that has approved its business scope within 15 days after launching its online distribution business. Zhejiang Jiyuan Network Technology Co., Ltd. holds an operation permit for publications whose scope includes online and retail sales of publications. Zhejiang Jixiang holds an operation permit for publications whose scope includes retail of publications and online publishing.

Filing by Third-Party Platforms Providers for Medical Device Online Trading Services and by Sellers of Medical Devices via Online Trading

Pursuant to the Regulations on the Supervision and Administration of Medical Devices, an enterprise engaging in the operation of medical devices shall have business premises and storage facilities suitable for the operation scale and scope, and shall have a quality control mechanism or personnel suitable for the medical devices it operates. An enterprise engaged in the distribution of class two medical devices shall complete record-filing formalities with the municipal level food and drug administration and provide supporting materials to satisfy the relevant conditions of engaging in the operation of medical devices, while an enterprise engaged in the distribution of class three medical devices shall apply for an operation permit with the municipal level food and drug administration and provide supporting materials to satisfy the relevant conditions of engaging in the operation of medical devices. Zhejiang Jiyuan completed the record-filing for its operation of class two medical devices in September 2020.

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The former China Food and Drug Administration, or the CFDA, which has been merged into SAMR promulgated the Measures for the Supervision and Administration of Online Sale of Medical Devices, or the Medical Devices Online Sale Measures, in December 2017, which became effective in March 2018, and the Administrative Measures for Online Drug Information Service, or the Measures for Online Drug Information Service, in July 2004 and amended in November 2017. Pursuant to the Medical Devices Online Sale Measures and the Measures for Online Drug Information Service, a provider of a third-party platform for online trading services for medical devices shall complete filing procedures with the competent provincial food and drug administrative department and obtain an Internet Pharmaceutical Information Services Qualification Certificate. A provider of a third-party platform for online trading services for medical devices that fails to complete the filing in accordance with the Medical Devices Online Sale Measures may be ordered by the competent provincial food and drug administrative department to make rectification within a prescribed time limit, and failure to make such rectification may be subject to public exposure of non-compliance and a penalty of not exceeding RMB30,000. In the case of any engagement in the online drug information service without obtaining a valid Internet Pharmaceutical Information Services Qualification Certificate, the provider of a third-party platform may be subject to an order to cease illegal acts and a warning by the competent administrative authority.

Pursuant to the Medical Devices Online Sale Measures and the Measures for Online Drug Information Service, a seller of medical devices via online transactions shall complete record-filing procedures with the competent food and drug administrative department, or such seller may be ordered to make rectification within a prescribed time limit, and failure to make such rectification may be subject to public exposure of non-compliance and a penalty of up to RMB10,000. Jishang Preferred obtained the Internet Pharmaceutical Information Services Qualification Certificate in March 2019 and completed the record-filing application for its online trading services for medical devices in March 2020.

Food Operation 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. Pursuant to the Administrative Measures on Food Operation Licensing issued by the CFDA in August 2015 and amended in November 2017, an enterprise needs to obtain a Food Operation Permit from the local food and drug administration, and the permits already obtained by food business operators prior to the effective date of these new measures will remain valid for their originally approved validity period. Each of Zhejiang Youji Supply Chain Management Co., Ltd., or Youji Supply Chain, a wholly-owned subsidiary of our WFOE, and Hangzhou Chuanchou, one of our VIEs holds the Food Operation Permit.

Filing by Third-Party Platform Providers for Food Online Trading

In July 2016, the CFDA promulgated the Measures for Investigation and Handling of Illegal Acts Involving Online Food Safety, pursuant to which a third-party platform provider for online food trading in the PRC shall file a record with the food and drug administration at the provincial level and obtain a filing number. Where an online food trading third-party platform provider fails to complete such filing, the provider may be ordered to make rectifications and given a warning by the competent food and drug administration, and failure to make such rectification may be subject to fines ranging from RMB5,000 to RMB30,000. Each of Jishang Preferred and Zhejiang Jixiang has completed its record-filing application as a third-party platform provider for online food trading in March 2021.

Licenses Relating to Internet Audio-Visual Program Services

The former State Administration of Radio Film and Television, or the SARFT, which is the predecessor of NRTA and the former Ministry of Information Industry jointly issued the Administrative Regulations on Internet Audio-Visual Program Service, or the Internet Audio-Visual Program Regulations, in December 2007 which became effective as of January 31, 2008 and was subsequently amended in August 2015. The Internet Audio-Visual Program Regulations define “internet audio-visual programs services” as the production, edition and integration of audio-video programs, the supply of audio-video programs to the public via the internet, and providing uploading and audio-video programs transmission services to a third party. Entities engaging in internet audio-visual programs services must obtain the internet audio-visual program transmission license, or the Audio-Visual License issued by the NRTA, which is only issued to state-owned or state-controlled entities unless the license applicants have obtained internet audio-visual program transmission licenses prior to the promulgation of the Audio-visual Program Provisions in accordance with the then-in-effect laws and regulations. According to the Categories of the Internet Audio-Video Program Services (Trial) promulgated by the SARFT in March 2017, “aggregation of internet audio-visual programs,” meaning “editing and arranging the internet audio-visual programs on the same website and providing searching and watching services to public users,” falls into the definition of the aforementioned “internet audio-visual programs services.” As of the date of this annual report, we have not obtained the Audio-Visual License for our business, and are not qualified to apply for the Audio-Visual License according to currently applicable law.

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According to the Administrative Regulations on Production of Broadcasting and Television Programs, which was promulgated by the SARFT on July 19, 2004, an entity engaged in producing broadcasting and television programs shall obtain the Production and Operation of Broadcasting and Television Programs Permit. If an entity engages in producing broadcasting and television programs without such permit, the relevant governmental authority may order such entity to cease its operations and confiscate its relevant equipment and impose a fine. We provide and display video programs on our apps, and therefore, are required obtain the Production and Operation of Broadcasting and Television Programs Permit. Jishang Preferred currently holds the Production and Operation of Broadcasting and Television Programs Permit. Beijing Feiyun Huyu Technology Co., Ltd, or Beijing Feiyun, a wholly-owned subsidiary of Yunji Preferred, obtained the Production and Operation of Broadcasting and Television Programs Permit in June 2020.

SARFT issued the Notice on Strengthening the Management of Live Streaming Service for the Network Audio-visual Programs in September 2016, pursuant to which an internet live streaming service provider shall (i) equip personnel to review the content of the live-stream; (ii) establish the technical methods and work mechanisms in order to emergently replace the unlawful content by using backup program; (iii) record the live streaming program and keep records for at least 60 days to fulfil the inspections requirements from the competent administrative authorities. The State Internet Information Office promulgated the Administrative Provisions on Internet Live Streaming Services in November 2016, pursuant to which an internet live streaming service provider shall (i) establish a live streaming content review platform; (ii) conduct authentication registration of internet live streaming issuers based on their identity certificates, business licenses and organization code certificates, etc.; and (iii) enter into a service agreement with internet live streaming services user to specify both parties' rights and obligations.

According to the Notice of Filing by Entities Engaged in Live Streaming Services which was issued by Cyberspace Administration on July 12, 2017, an entity that operates as a transmission platform for live streaming activities shall complete record-filing procedures with local branch of Cyberspace Administration. Currently, no specific regulation has been promulgated with respect to the consequence of breach of such requirements. According to the Circular on Tightening the Administration of Online Live Services which was issued jointly by National Working Group of Attacking Pornography and Illegal Publications, MIIT, Ministry of Public Security, Ministry of Culture and Tourism, SARFT and Cyberspace Administration on August 1, 2018, online live streaming service providers shall fulfill the website ICP filing formalities with competent authority according to applicable laws, and shall fulfill the public security filing formalities with the local public security organs within 30 days of their live services being launched. Jishang Preferred and Beijing Feiyun are in the process of completing their respective record-filing procedures with the competent authorities.

Regulations on Commercial Factoring

The commercial factoring is a relatively new business in China, the MOFCOM issued the circulars to promote commercial factoring in specific regions. Pursuant to the Circular on the Pilot Work of Commercial Factoring, which was promulgated by the MOFCOM on June 27, 2012, a trial implementation of commercial factoring pilot work was permitted in Tianjin Binhai New Area and Shanghai Pudong New Area to explore the approaches to develop the commercial factoring. Certain specific requirements for establishment of commercial factoring companies in Tianjin Binhai New Area and Shanghai Pudong New Area were provided under the Reply Letter on Pilot Plan of Commercial Factoring issued by the MOFCOM on October 9, 2012. In December 2012, the said trial implementation of commercial factoring pilot work was extended to Guangzhou and Shenzhen under the Notice on Trial Establishment of Commercial Factoring Companies in Shenzhen and Guangzhou by Service Providers from Hong Kong and Macau, which allowed qualified investors from Hong Kong and Macau to establish commercial factoring companies in the said cities. The MOFCOM issued the Notice on Industrial Administration of Commercial Factoring on August 15, 2013, which imposes reporting requirements on commercial factoring companies established in the trial zones. Pursuant to the Reply of the Ministry of Commerce on Launching Pilot Commercial Factoring Business in the Chongqing Liangjiang New Area, the Sunan Modernization Development Demonstration Zone and the Suzhou Industrial Park, released by the MOFCOM on August 26, 2013, and amended on October 28, 2015, the trial implementation of commercial factoring was extended to Chongqing Liangjiang New Area, Sunan Modernization Development Demonstration Zone, and the Suzhou Industrial Park.

Regulations Relating to Financing Lease

On September 18, 2013, MOFCOM issued the Administration Measures of Supervision on Financing Lease Enterprises, or the Leasing Measures, to regulate and administer the business operations of financing lease enterprises. According to the Leasing Measures, financing lease enterprises are allowed to carry out financing lease business in such forms as direct lease, sublease, sale-and-lease-back, leveraged lease, entrusted lease and joint lease in accordance with the provisions of relevant laws, regulations and rules. However, the Leasing Measures prohibit financing lease enterprises from engaging in financial business such as accepting deposits, providing loans or entrusted loans. Without the approval from relevant authorities, financing lease enterprises shall not engage in inter-bank borrowing and other businesses. In addition, financing lease enterprises are prohibited from carrying out illegal fund-raising activities in the name of financing lease. The Leasing Measures require financing lease enterprises to establish and improve their financial and internal risk control systems, and a financing lease enterprise's risk assets shall not exceed ten times of its total net assets. Risk assets generally refer to the adjusted total assets of a financing lease enterprise excluding cash, bank deposits, sovereign bonds and entrusted leasing assets.

Regulations Relating to OEM Production and Labeling of Domestic Cosmetic Products

Pursuant to the Regulations Concerning the Hygiene Supervision over Cosmetics Products, the Hygiene Regulations, which was promulgated by the former Ministry of Health and became effective in 1990, and its implementation rules, the Implementation of Hygiene Regulations, which was promulgated by the former Ministry of Health and became effective in 1991 and amended in 2005, cosmetic products are divided into "special purpose cosmetic products" and "non-special purpose cosmetic products." "Special purpose cosmetic products" refer to those cosmetics used for hair growth, hair-dye, hair perm, hair removal, breast massage, deodorant, fading cream and sun protection. Any cosmetic product not covered by such scope is a non-special purpose cosmetic product.

The Regulations on the Supervision and Administration of Cosmetics, or the Supervision Regulations, was promulgated by the State Council on June 16, 2020 and become effective from January 1, 2021 that replacing the Hygiene Regulations. Compared with the Hygiene Regulations and the Implementation Rule of Hygiene Regulations and its implementation rules, the Supervision Regulations clarify or amend certain provisions including, without limitation, the followings:

- (i) Responsibilities of the different parties in the operation of cosmetics. Firstly, the Supervision Regulations for the first time introduce the concepts of registrant and record-filing applicant of cosmetics. The applicant for registration or record-filing of cosmetics shall undertake the main responsibilities for the quality, safety and effectiveness claims of cosmetics. Specifically, an applicant for registration or record-filing of cosmetics shall be responsible for the registration or filing before sale of such cosmetics, the monitoring of adverse reactions, the evaluation and reporting, product risk control and recall, and safety re-evaluation of the products and raw materials after sale of such cosmetics to ensure quality and safety of the registered/filed products. In addition, the claims for the effectiveness of all types of cosmetics shall be supported by sufficient scientific basis and an extract of the papers, research data or product evaluation material on which such effectiveness is claimed to be based shall be made public on websites designated by the regulatory authority. An applicant registering or filing the record for cosmetics shall be subject to the supervision of the NMPA. Secondly, an applicant for registration or record-filing of cosmetics may entrust another enterprise (OEMs) with the production of cosmetics. The OEMs shall obtain the corresponding license for production of cosmetics and shall carry out production in accordance with the laws, regulations, mandatory national standards, technical specifications and contractual agreements, and be responsible for production activities and accept the supervision of the applicant for registration or record-filing of cosmetics. With respect to our business operation, we will become the applicant for registration or record-filing of cosmetics under the Supervision Regulations and undertake main responsibilities for quality, safety and effectiveness claims of our cosmetics products.

- (ii) Categories of cosmetics. Cosmetics are divided into special cosmetics and ordinary cosmetics instead of special purpose cosmetic products and non-special purpose cosmetic products. Special cosmetics refer to cosmetics for hair dye, hair perm, freckle removal and whitening, sun protection and hair loss prevention as well as those purporting to have new functions and effects, and ordinary cosmetics refer to cosmetics other than special cosmetics. The production and import of special cosmetics shall be registered with the NMPA. The production and import of ordinary cosmetics is subject to the record-filing administration.
- (iii) Legal consequences of violations. The Supervision Regulations have raised the limit for penalties for noncompliance. For example, monetary penalties on production of cosmetics without requisite permits, production of unregistered special cosmetics, use of banned materials and illegal use of materials may be subject to a fine of 30 times the value of the concerned products. Violations of the provisions of the Hygiene Regulations or the Supervision Regulations will result in different penalties ranging from fines (fixed range or, in cases of severe violations, based on the values of the illegally manufactured goods), confiscation of raw materials, products illegally manufactured or sold and illegally obtained gains, revoking licenses, and suspension of business. Furthermore, pursuant to the Supervision Regulations, the responsible individual shall be subject to an industry operation banning period for five or ten years or even criminal liability.

The Administrative Provisions on the Labeling of Cosmetics, which was promulgated in August 2007 by the General Administration of Quality Supervision, Inspection and Quarantine and became effective in September 2008, requires labels of cosmetic products to contain information such as name and address of the producers, date of production, expiry date, batch number, applicable industrial standards, quality inspection certificates, and production license number. No claim or implication that a cosmetic product has medical or therapeutic effects is permitted to be included in the labels of such cosmetic product.

Regulations Relating to E-Commerce

In January 2014, the former State of Administration of Industry and Commerce (which has been merged into SAMR) adopted the Administrative Measures for Online Trading, or the Online Trading Measures, which took effect in March 2014. Under the Online Trading Measures, e-commerce platform operators are required to examine, register and archive the identity information of the merchants applying for access to their platforms as sellers, and verify and update such information regularly. The Online Trading Measures also provide that e-commerce platform operators must make publicly available (i) the link to or the information contained in the business licenses of the merchants, in the case of business entities, or (ii) a label confirming the verified identity of the merchants, in the case of individuals. A consumer is entitled to return the commodities within seven days after receipt of the commodities without giving a reason, except for the following commodities: customized commodities, fresh and perishable commodities, audio-visual products downloaded online or unpackaged by consumers and computer software and other digital commodities, and newspapers and journals that have been delivered. E-commerce platform operators must, within seven days upon receipt of the returned commodities, provide full refunds to consumers. In addition, operators are prohibited from setting forth provisions in contracts or other terms that are not fair or reasonable to consumers such as those excluding or restraining consumers' rights, relieving or exempting operators' responsibilities, and increasing the consumers' responsibilities, or conducting transactions in a forcible manner taking advantage of contractual terms or technical means.

In March 2016, the State Administration of Taxation, or the SAT, the Ministry of Finance, or the MOF, and the General Administration of Customs jointly issued the Circular on Tax Policy for Cross-Border E-Commerce Retail Imports, which took effect in April 2016. Pursuant to this circular, goods imported through the cross-border e-commerce retail are subject to tariff, import value-added tax, and consumption tax based on the types of goods. Individuals purchasing any goods imported through cross-border e-commerce retail are taxpayers, and e-commerce companies, companies operating e-commerce transaction platforms or logistic companies are required to withhold the taxes.

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 sets forth a series of requirements on e-commerce platform operators. According to the E-Commerce Law, e-commerce platform operators shall verify and register platform merchants, and cooperate with the market regulatory administrative department and tax administrative department to conduct industry and commerce registrations and tax registrations for merchants. The e-commerce platform operators shall also prepare a contingency plan for cybersecurity events and take technological measures and other measures to prevent online illegal and criminal activities. The E-Commerce Law also expressly requires platform operators to take necessary actions to ensure fair dealing on their platforms to safeguard the legitimate rights and interests of consumers, including to prepare platform service agreements and transaction information record-keeping and transaction rules, to prominently display such documents on the platform's website, and to keep such information for no less than three years following the completion of a transaction. To legally handle intellectual property infringement disputes, upon receipt of the notice specifying preliminary evidence for alleged infringement, the platform operators are required to take necessary measures in a timely manner, such as deleting, blocking and disconnecting the hyperlinks, terminating transactions and services, and to forward notices to merchants on its platform. If an e-commerce platform operator fails to take necessary measures when it knows or should have known that a merchant on the platform infringes any third-party intellectual property rights, products or services provided by a merchant on its platform do not meet the requirements regarding personal or property safety, or any merchant otherwise impairs the lawful rights and interests of consumers, the e-commerce platform operator will be held jointly liable with the merchants on its platform.

Moreover, the E-Commerce Law imposes a requirement on operators of e-commerce platforms to assist in tax collection with respect to income generated by sellers from transactions conducted on e-commerce platforms, including among others, submitting to the tax authority information on the identities of sellers on e-commerce platforms and other information relating to tax payment. Failure to comply with the requirement may result in operators of e-commerce platform being subject to fines and, in severe circumstances, suspension of business operations of e-commerce platforms. If the members on our platform were deemed to be selling our products on consignment basis, the PRC tax authorities may require our members to make tax registration and request our assistance in these efforts, pursuant to the E-Commerce Law and our members may be subject to more stringent tax compliance requirements. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Failure to comply with the relatively new E-Commerce Law may have a material adverse impact on our business, financial conditions and results of operations." According to the EIT Law, the VAT Law and other applicable regulations, sellers that conduct transactions on e-commerce platforms are generally subject to enterprise income tax at a rate of 25%, and value-added tax at a rate of 13% or 9% for services or products sold on the e-commerce platforms. Certain sellers that are deemed as small taxpayers under PRC law are subject to reduced value-added tax at a rate of 3%.

Regulations Relating to Pyramid Selling in the PRC

The Regulations on Prohibition of Pyramid Selling, that were promulgated by the State Council in August 2005 and became effective in November 2005, prohibit pyramid selling activities. According to the Regulations on Prohibition of Pyramid Selling, the following activities taken by organizers or operators are considered as "pyramid selling": (i) taking in new members and compensating each member by giving material awards or other financial benefits, based upon the number of new members directly or indirectly introduced by such member on a rolling basis, so as to gain illegal benefits; or (ii) requesting a sum of money as entry fee or as a condition to membership for new members, either directly or through purchasing commodities, so as to gain illegal benefits; or (iii) requesting members to introduce additional members to establish a multi-level relationship and compensating each member based on the level of sales generated by the additional members introduced by such member, so as to gain illegal benefits. The PRC laws and regulations have not defined "illegal benefit" and the determination of gaining "illegal benefit" is to a large extent subject to discretionary view of the competent authorities in the PRC. Any individual or entity engaging in organization of pyramid selling may be subject to confiscation of illegal gains and fines ranging from RMB0.5 million to RMB2.0 million (US\$0.3 million), and even criminal liabilities if a crime is constituted. On March 23, 2016, the former State of Administration of Industry and Commerce (which has been merged into SAMR) promulgated the Risk Warning for New Types of Pyramid Selling, which provides that if an activity satisfies the three features stated above at the same time, it will be identified as pyramid selling, regardless of whether any illegal benefit is obtained.

In May 2017, we received a formal notice from the local Administration for Market Regulation in Hangzhou, which ruled that our sales and marketing practice adopted in our early stage of development prior to February 2016 violated the Regulations on the Prohibition of Pyramid Selling and imposed a penalty of approximately RMB9.6 million (US\$1.4 million). We fully paid this fine in June 2017 and have adjusted our business practices since February 2016 to comply with the Regulations on the Prohibition of Pyramid Selling and other applicable regulations. We have adjusted our practices specifically as follows: (i) to avoid being deemed as requesting a sum of money as entry fee through purchasing commodities, we have adjusted our membership package, which individuals are required purchase to become a member of our platform, to include a set of selected products or services and access to the *Yunji* app containing membership benefits and features; (ii) to avoid being deemed as giving material awards or other financial benefits to existing members for new member referrals, we have adjusted the rewards that we grant to our members upon a successful new member referral to Yun-coins, which are not redeemable for cash and can only be used as coupons for future purchases on our platform; and (iii) to avoid establishing multilevel relationship of members, we grant members incentives only for products sold directly via the links that such member shares through his/her social network, and not for products sold via links shared by any other member that was originally invited by such member. In addition, since we have provided products of value and services to our members as consideration for purchasing our membership package, and the products on our platform are offered at market prices, we believe our current business practices do not constitute as gaining “illegal benefits.” In December 2018, we and Han Kun Law Offices, our PRC legal counsel, consulted with the competent government authority in Hangzhou on our current business model and operations, and the district branch of SAMR having direct jurisdiction over our PRC entities that currently operate our membership-based social e-commerce platform verbally confirmed that these entities have conducted their business operations lawfully and none of these entities is in violation of the Regulations on the Prohibition of Pyramid Selling or any other applicable laws. Based on our discussion with the competent government authorities and the advice of Han Kun Law Offices, we believe that our current business model is not in violation of applicable PRC laws and regulations, including the Regulations on the Prohibition of Pyramid Selling. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—If our business model were found to be in violation of applicable laws and regulations, our business financial condition and results of operations would be materially and adversely affected.”

Regulations Relating to Internet Information Security and Privacy Protection

Internet information in China is regulated from a national security standpoint. The National People’s Congress, or the NPC, has enacted the Decisions on Preserving Internet Security in December 2000 and amended in August 2009, which subject violators to potential criminal punishment in China for any attempt 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. The Ministry of Public Security of the PRC, or the MPS, has promulgated the Administrative Measures for the Computer Information Network and Internet Security Protection in December 1998 and amended in January 2011, which prohibits use of the internet in ways which, among other things, result in a leak of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the MPS and its local branches may issue warning, confiscate the illegal gains, impose fines, and, in severe cases, advice competent authority to revoke its operating license or shut down its websites.

Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in December 2011 and implemented in March 2012, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of the user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An internet information service provider is also required to properly maintain the user’s personal information, and in case of any leak or likely leak of the user’s personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, immediately report to the telecommunications authority. Moreover, pursuant to the Ninth Amendment to the Criminal Law issued by the SCNPC in August 2015 and implemented in November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client’s information; (iii) any serious loss of criminal evidence; or (iv) other severe situation. Any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtains any personal information, shall be subject to criminal penalty in severe situation. In addition, the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, issued in May 2017 and implemented in June 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement.

In November 2016, the SCNPC, promulgated the Cyber Security Law of the PRC, or the Cyber Security Law, which became effective on June 1, 2017. The Cyber Security Law requires that a network operator, which includes, among others, internet information services providers, take technical measures and other necessary measures in accordance with applicable laws and regulations and the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of its networks. We are subject to such requirements as we are operating website and mobile applications and providing certain internet services mainly through our mobile applications. The Cyber Security Law further requires internet information service providers to formulate contingency plans for network security incidents, report to the competent departments immediately upon the occurrence of any incident endangering cyber security and take corresponding remedial measures.

Internet information service providers are also required to maintain the integrity, confidentiality and availability of network data. The Cyber Security Law reaffirms the basic principles and requirements specified in other existing laws and regulations on personal data protection, such as the requirements on the collection, use, processing, storage and disclosure of personal data, and internet information service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent the personal information from being divulged, damaged or lost. Any violation of the Cyber Security Law may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, shutdown of websites or criminal liabilities.

Furthermore, MIIT's Rules on Protection of Personal Information of Telecommunications and Internet Users promulgated in July 2013, effective September 2013, contain detailed requirements on the use and collection of personal information as well as security measures required to be taken by telecommunications business operators and internet information service providers.

On January 23, 2019, the Office of the Central Cyberspace Affairs Commission and other three authorities jointly issued the Circular on the Special Campaign of Correcting Unlawful Collection and Usage of Personal Information via Apps. Pursuant to this 2019 circular, (i) app operators are prohibited from collecting any personal information irrelevant to the services provided by such operator; (ii) information collection and usage policy should be presented in a simple and clear way, and such policy should be consented by the users voluntarily; (iii) authorization from users should not be obtained by coercing users with default or bundling clauses or making consent a condition of a service. App operators violating such rules can be ordered by authorities to correct its incompliance within a given period of time, be reported in public; or even quit its operation or cancel its business license or operational permits. Furthermore, on November 28, 2019, the SAMR, the Office of the Central Cyberspace Affairs Commission, the MIIT and the Ministry of Public Security jointly issued the Measures for the Determination of the Collection and Use of Personal Information by Apps in Violation of Laws and Regulations, which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and for other participants to voluntarily monitor compliance. The Provisions on the Cyber Protection of Children's Personal Information issued by the Office of the Central Cyberspace Affairs Commission came into effect on October 1, 2019, which requires, among others, that network operators who collect, store, use, transfer and disclose personal information of children under the age of 14 shall establish special rules and user agreements for the protection of children's personal information, inform the children's guardians in a noticeable and clear manner, and shall obtain the consent of the children's guardians. Furthermore, the authorities issuing the circular has pledged to initiate a campaign to correct unlawful collection and usage of personal information via apps from January 2019 through December 2019.

The PRC National People's Congress enacted the PRC Civil Code on May 28, 2020, which came into effective on January 1, 2021. The PRC Civil Code, in addition to the systematic codification of provisions from existing legislations, introduces more generally acceptable provisions on the right to privacy and the protection of personal information, and provides clearer legal basis for civil actions against privacy and personal information related infringements and breaches. Personal information is the information recorded electronically or in other ways that can be used, by itself or in combination with other information, to identify a natural person, including the name, date of birth, identification number, biometric information, residential address, telephone number, email address, health information, whereabouts, and the like, of the person. The processing of personal information shall be in compliance with the principles of lawfulness, justification, and within a necessary limit, and shall not be excessively processed; Where a natural person discovers that an information processor has violated the provisions of laws or administrative regulations, or breached the agreement between both parties while processing his personal information, he has the right to request the information processor to delete it in a timely manner. According to the PRC Civil Code, a natural person's personal information is protected by law. Any organization or individual that needs to access other's personal information must do so in accordance with law and guarantee the safety of such information, and may not illegally collect, use, process, or transmit other's personal information, or illegally trade, provide, or publicize such information. An information processor shall not disclose or tamper with the personal information he collects and stores, and shall not illegally provide to others the personal information of a natural person without the latter's consent, unless the information, after being processed, cannot be used to identify any specific individual and cannot be restored to its original status. An information processor shall take technical measures and other necessary measures to ensure the security of the personal information he collects and stores, and prevent the information from being leaked, tampered with, or lost. Where a person's personal information has been or is likely to be leaked, tampered with, or lost, he shall take remedial measures in a timely manner, notify the natural persons concerned in accordance with the regulations, and report to the relevant competent authorities. Where a natural person discovers that an information processor has violated the provisions of laws or administrative regulations, or breached the agreement between both parties while processing his personal information, he has the right to request the information processor to delete it in a timely manner.

Regulations Relating to Product Quality and Consumer Protection

The PRC Product Quality Law, or the Product Quality Law, which was promulgated by the MOFCOM in February 1993 and most recently amended in December 2018, applies to all production and sale activities in China. Pursuant to the Product Quality 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 Rights and Interests Protection Law, or the Consumer Protection Law, as amended in October 2013 and implemented in March 2014 sets out the obligations of business operators and the rights and interests of the consumers. Pursuant to the Consumer Protection Law, business operators must guarantee that the sold commodities 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 of which 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 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.

Furthermore, the Consumer Protection Law and the Online Trading Measures, have provided stringent requirements and obligations on business operators, including internet business operators and platform service providers. For example, consumers are entitled to return goods purchased online, subject to certain exceptions, within seven days upon receipt of such goods for no reason. To ensure that sellers and service providers comply with such regulations, the platform operators are required to implement rules governing transactions on the platform, monitor the information posted by sellers and service providers, and report any violations by such sellers or service providers to the competent authorities. In addition, online platform providers may, pursuant to the relevant PRC consumer protection laws, be exposed to liabilities if rights and interests of any consumer are infringed upon in connection with consumers' purchase of goods or acceptance of services on such online platforms and the online marketplace platform providers fail to provide consumers with the contact information of the seller or manufacturer. In addition, online marketplace platform providers may be jointly and severally liable with sellers and manufacturers of relevant goods or services if they are aware or should be aware that such sellers or manufacturers are using the online platform to infringe the rights and interests of any consumers and fail to take measures necessary to prevent or stop such activities.

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According to Part VII Tort Liability of the PRC Civil Code, which was enacted by the PRC National People's Congress in May 2020 and came into effect on January 1, 2021, if damages to other persons are caused by defective products due to the fault of third parties, such as the parties providing transportation or warehousing, the producers and the sellers of the products have the right to recover their respective losses from such third parties. If defective products are identified after they have been put into circulation, the producers or the sellers shall take remedial measures such as issuance of a warning, recall of products, etc., in a timely manner. The producers or the sellers shall be liable under tort if they fail to take remedial measures in a timely manner or have not made efforts to take remedial measures, thus causing damages. If the products are produced or sold with known defects, causing deaths or severe adverse health issues, the infringing party has the right to claim punitive damages in addition to compensatory damages.

Regulations Relating to Payment Services

In June 2010, the PBOC issued the Administrative Measures for the Payment Services of Non-Financial Institutions. Under this rule, a non-financial institution must obtain a payment business license, or Payment License, to provide payment services and qualifies as a paying institution. With the Payment License, a non-financial institution may serve as an intermediary between payees and payers and provide some or all of the following services: online payment, issuance and acceptance of prepaid card, bank card acceptance, and other payment services as specified by the PBOC. Without PBOC's approval, no non-financial institution or individual may engage in payment business whether explicitly or in a disguised form.

In November 2017, the PBOC published a notice, or the PBOC Notice, on the investigation and administration of illegal offering of settlement services by financial institutions and third-party payment service providers to unlicensed entities. The PBOC Notice intended to prevent unlicensed entities from using licensed payment service providers as a conduit for conducting the unlicensed payment settlement services, so as to safeguard the fund security and information security. We believe that our cooperation with third-party online payment service providers is not in violation of the PBOC Notice, because we sell the products on our platform to users and receive payment from users through the third-party online payment service providers. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We rely on third-party online payment service providers for payment processing and escrow services on our platform. If these payment services are restricted or curtailed in any way or become unavailable to us or our users for any reason, our business may be materially and adversely affected."

Regulations Relating to Intellectual Property in the PRC

Trademark

The PRC Trademark Law and its implementation rules protect registered trademarks. The Trademark Office of National Intellectual Property Administration under the SAMR is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Registered trademarks are granted a valid term of ten years, which could be renewed each time for another ten years commencing from the day after the expiry date of the last period of validity if the required renewal formalities have been completed. 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.

Domain Name

The MIIT promulgated the Measures on Administration of Internet Domain Names, or the Domain Name Measures, on August 24, 2017, which took effect on November 1, 2017. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center, or CNNIC, is responsible for the daily administration of “.cn” domain names and Chinese domain names. CNNIC adopts a “first-to-file” principle with respect to the registration of domain names. Applicants for registration of domain names must provide the true, accurate and complete information of their identities to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

Copyright

The PRC Copyright Law, or the Copyright Law, which took effect on June 1, 1991 and was amended in 2001 and in 2010, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, own copyright in their copyrightable works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship and right of reproduction. The Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, the Copyright Law provides for a voluntary registration system administered by the China Copyright Protection Center, or the CPCC. According to the Copyright Law, an infringer of the copyrights shall be subject to various civil liabilities, which include ceasing infringement activities, apologizing to the copyright owners and compensating the loss of copyright owner. Infringers of copyright may also subject to fines and/or administrative or criminal liabilities in severe situations.

Pursuant to the Computer Software Copyright Protection Regulations promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, Chinese citizens, legal persons and other organizations shall enjoy copyright on software they develop, regardless of whether the software is released publicly. Software copyright commences from the date on which the development of the software is completed. The protection period for software copyright of a legal person or other organizations shall be 50 years, concluding on December 31 of the 50th year after the software’s initial release. The software copyright owner may go through the registration formalities with a software registration authority recognized by the State Council’s copyright administrative department. The software copyright owner may authorize others to exercise that copyright, and is entitled to receive remuneration.

Patent

According to the PRC Patent Law (revised in 2008), the State Intellectual Property Office is responsible for administering patent law in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patent law within their respective jurisdictions. The Chinese patent system adopts a first-to-file principle, which means that when more than one person files different patent applications for the same invention, only the person who files the application first is entitled to obtain a patent of the invention. Patents in China fall into three categories: invention, utility model and design. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention and ten years in the case of utility models and designs.

Regulations Relating to Labor Protection in the PRC

Labor Contract Law

The PRC Labor Contract Law, or the Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, is primarily aimed at regulating rights and obligations of employer and employee relationships, including the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between employers and the employees. Employers are prohibited from forcing employees to work above certain time limit and employers shall pay employees for overtime work in accordance to national regulations. In addition, employee wages shall be no lower than local standards on minimum wages and must be paid to employees in a timely manner.

Interim Provisions on Labor Dispatch

Pursuant 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, dispatched workers are entitled to equal pay with full-time employees for equal work. Employers are allowed to use dispatched workers for temporary, auxiliary or substitutive positions, and the number of dispatched workers may not exceed 10% of the total number of employees.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the Decisions of the State Council on the Establishment of a Unified Program for Old-Aged Pension Insurance issued on July 16, 1997, the Decisions of the State Council on the Establishment of the Medical Insurance Program for Urban Workers promulgated on December 14, 1998, the Unemployment Insurance Measures promulgated on January 22, 1999 and the Social Insurance Law of the PRC implemented on July 1, 2011, employers are required to provide their employees in the PRC with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities. Any employer that fails to make social insurance contributions may be order to rectify the non-compliance and pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the prescribed time, it may be subject to a fine ranging from one to three times the amount overdue. In accordance with the *Regulations on the Management of Housing Fund* which was promulgated by the State Council in 1999 and amended in 2002, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employer and employee are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time.

Employee Stock Incentive Plan

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company, or Circular 7, which was issued by the SAFE on February 15, 2012, employees, directors, supervisors, and other senior management who participate in any stock incentive plan of a publicly-listed overseas company and who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year, subject to a few exceptions, are required to register with SAFE through a qualified domestic agent, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures. In addition, the SAT has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, employees working in the PRC who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents related to employee stock options and restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock option or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

Regulations Relating to Tax in the PRC

Income Tax

The PRC Enterprise Income Tax Law, or the EIT 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 EIT 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 MOF 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.

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On April 22, 2009, the SAT issued the Circular of the State Administration of Taxation on Issues Relating to Identification of PRC-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the De Facto Standards of Organizational Management, or the SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the 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 the SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its 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. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Income Tax on PRC-controlled Resident Enterprises Incorporated Overseas (Trial Implementation), or the SAT Bulletin 45, which took effect in September 2011, to provide more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 provides for procedures and administration details of determination on resident status and administration on post-determination matters.

Value-added Tax

The Provisional Regulations of the PRC on Value-added Tax, the VAT Regulation, were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended from time to time. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) was promulgated by the MOF on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, or collectively, the VAT Law. On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax, or the Order 691. On April 4, 2018, MOF and SAT jointly promulgated the Circular on Adjustment of Value-Added Tax Rates, or Circular 32. On March 31, 2019, the MOF, SAT and General Administration of Customs jointly issued the Announcement on Relevant Policies for Deepening Value-added Tax Reform, or Announcement No. 39. According to the VAT Law, the Order 691 and the Circular 32, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. According to Announcement No. 39, the VAT tax rates generally applicable are simplified as 13%, 9%, 6% and 0%, and the VAT tax rate applicable to the small-scale taxpayers is 3%.

Dividend Withholding Tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends derived from sources within the PRC and declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have an establishment or place of business that is not effectively connected with the relevant income.

Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or the SAT Circular 81, issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT and took effect on April 1, 2018, when determining the applicant’s status as the “beneficial owner” regarding tax treatments in connection with dividends, interest or royalties in the tax treaties, several factors, including, without limitation, whether the applicant is obligated to pay more than 50% of his or her income over a twelve-month period to residents in a third country or region, whether the business operated by the applicant constitutes actual business activities, and whether the counterparty country or region to the tax treaty does not levy any tax, exempts the relevant income from tax, or levies tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her “beneficial owner” status shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

On February 3, 2015, the SAT issued the Public Notice Regarding Certain Enterprise Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or the SAT Public Notice 7. The SAT Public Notice 7 extends its tax jurisdiction to cover not only the indirect transfer by a non-resident enterprise of equity interests in a PRC resident enterprise through disposition of equity interests in an overseas holding company, or an Indirect Transfer, but also to transactions involving the transfer of other taxable assets through the offshore transfer of a foreign intermediate holding company. The SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, the SAT issued the Public Notice on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or the SAT Public Notice 37, which came into effect on December 1, 2017. According to SAT Public Notice 37, where the non-resident enterprise fails to declare its tax payable pursuant to Article 39 of the EIT Law, the tax authority may order it to pay its tax due within required time limits, and the non-resident enterprise shall declare and pay its tax payable within such time limits specified by the tax authority. If the non-resident enterprise voluntarily declares and pays its tax payable before the tax authority orders it to do so, it shall be deemed that such enterprise has paid its tax payable in time.

Regulations relating to Foreign Exchange

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange of the PRC, or the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office.

Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from the SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or the SAFE Circular 59, promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015, approval of SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. The SAFE Circular 59 also simplified foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies and further improve the administration on foreign exchange settlement for foreign-invested enterprises.

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The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, or the SAFE Circular 13, effective from June 1, 2015, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to the SAFE Circular 13, the investors shall register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or the SAFE Circular 19, which was promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, provides that a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to the SAFE Circular 19, for the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capital on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered.

The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or the SAFE Circular 16, which was promulgated by the SAFE and became effective on June 9, 2016, provides that enterprises registered in the PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC.

According to the FIE Record-filing Interim Measures, the Administrative Rules on the Company Registration, which was promulgated by the State Council on June 24, 1994, became effective on July 1, 1994 and latest amended on February 6, 2016, and other laws and regulations governing the foreign invested enterprises and company registrations, the establishment of a foreign invested enterprise and any capital increase and other major changes in a foreign invested enterprise shall be registered with the State Administration for Market Regulation, or the SAMR, or its local counterparts, and shall be filed via the foreign investment comprehensive administrative system, or the FICMIS, if such foreign invested enterprise does not involve special access administrative measures prescribed by the PRC government.

Pursuant to the SAFE Circular 13 and other laws and regulations relating to foreign exchange, when setting up a new foreign invested enterprise, the foreign invested enterprise shall register with the bank located at its registered place after obtaining the business license, and if there is any change in capital or other changes relating to the basic information of the foreign-invested enterprise, including, without limitation, any increase in its registered capital or total investment, the foreign invested enterprise must register such changes with the bank located at its registered place after obtaining approval from or completing the filing with competent authorities. Pursuant to the relevant foreign exchange laws and regulations, the above-mentioned foreign exchange registration with the banks will typically take less than four weeks upon the acceptance of the registration application.

Based on the foregoing, if we intend to provide funding to our wholly foreign owned subsidiaries through capital injection at or after their establishment, we must register the establishment of and any follow-on capital increase in our wholly foreign owned subsidiaries with the SAMR or its local counterparts, file such via the FICMIS and register such with the local banks for the foreign exchange related matters.

Offshore Investment

Under the Circular of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or the SAFE Circular 37, issued by the SAFE and effective on July 4, 2014, PRC residents are required to register with the local SAFE branch prior to contributing assets or equity interests in an offshore special purpose vehicle, or SPV, which is defined as offshore enterprises directly established or indirectly controlled by PRC residents for investment and financing purposes, with the enterprise assets or interests they hold in China or overseas. The term “control” means obtain the operation rights, right to proceeds or decision-making power of a SPV through acquisition, trust, holding shares on behalf of others, voting rights, repurchase, convertible bonds or other means. An amendment to registration or subsequent filing with the local SAFE branch by such PRC resident is also required if there is any change in basic information of the offshore company or any material change with respect to the capital of the offshore company. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment regarding the procedures for SAFE registration under the SAFE Circular 37, which became effective on July 4, 2014 as an attachment of Circular 37.

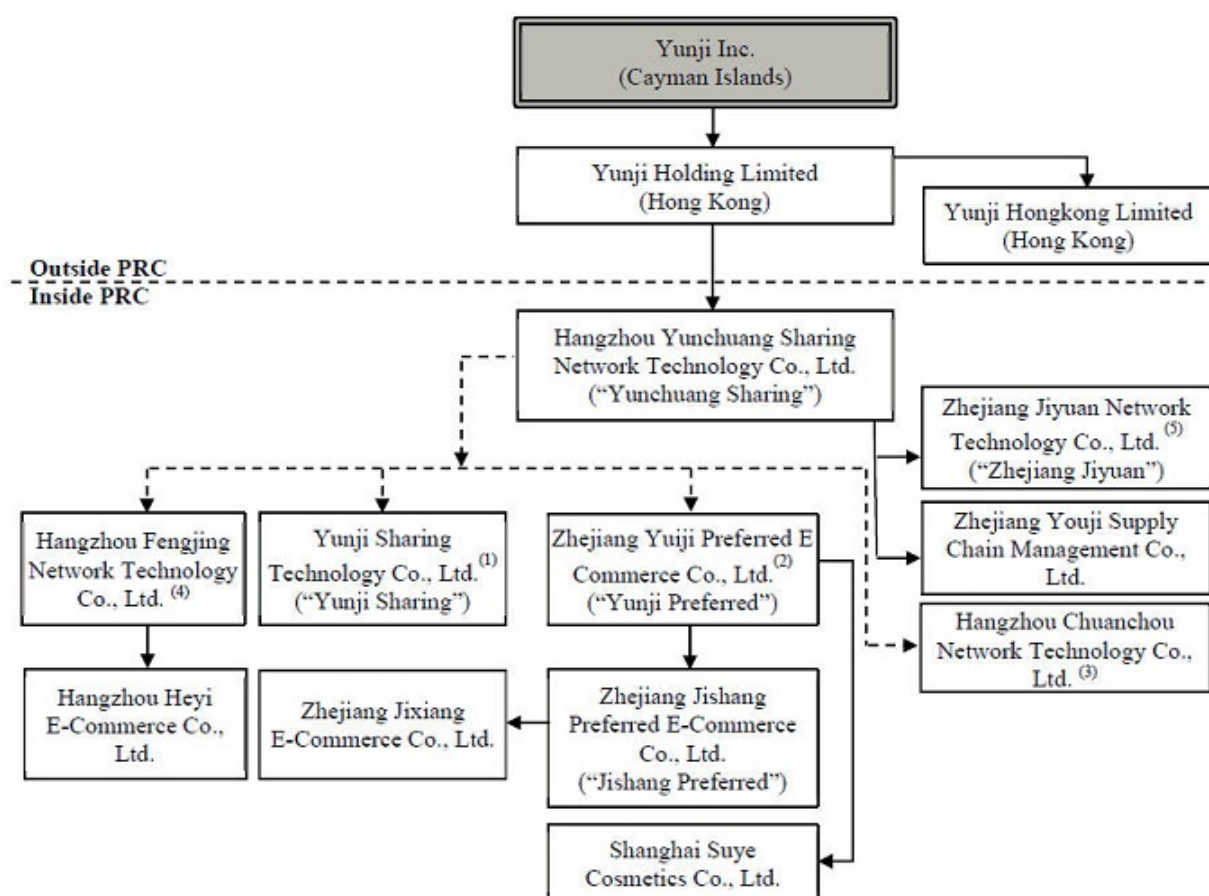
Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in bans on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliates, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

Regulations on Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the PRC Company Law, as amended in 1999, 2004, 2005, 2013 and 2018, and the Foreign Investment Law take into effect on January 1, 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

C. Organizational Structure

The chart below summarizes our corporate structure, including our principal subsidiaries, our VIEs and our VIEs' principal subsidiaries, as of the date of this annual report:



→ Equity interests (100% unless otherwise specified)
 ↔ Contractual arrangements (For details. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities and Their Respective Shareholders.”)

- Notes:
- (1) Daqiao Network Technology (Hangzhou) Co., Ltd., Hangzhou Yuepeng Trading Co., Ltd., and Deqing Jijie Investment Management Partnership (Limited Partnership) each holds 65.53%, 28.09%, and 6.38% of the equity interests in Yunji Sharing, respectively. All of these entities are shareholders or affiliates of shareholders of our company. We plan to dissolve this entity in the future as it does not engage in substantial business activities.
 - (2) Mr. Shanglue Xiao and Mr. Huan Hao each holds 99.0099% and 0.9901% of the equity interests in Yunji Preferred, respectively. Mr. Shanglue Xiao and Mr. Huan Hao are both beneficial owners of our company. Mr. Shanglue Xiao also serves as the chairman of our board of directors and the chief executive officer of our company and Mr. Huan Hao also serves as the chief technology officer of our company.
 - (3) Mr. Wenwei Shu holds 100% of equity interests in Hangzhou Chuanchou. Mr. Wenwei Shu is a nominee of our company.
 - (4) Mrs. Panyan Ding and Mr. Wenwei Shu each holds 60% and 40% of the equity interests in Hangzhou Fengjing. Mrs. Panyan Ding and Mr. Wenwei Shu are nominees of our company.
 - (5) Yunchuang Sharing holds 10% of the equity interest in Zhejiang Jiyuan, and Zhejiang Fengji Technology Co., Ltd., an indirect wholly-owned foreign-invested enterprise subsidiary of Yunji Inc., holds 90% of the equity interest in Zhejiang Jiyuan.

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The following is a summary of the currently effective contractual arrangements relating to Yunji Sharing, Yunji Preferred, Hangzhou Chuanchou and Hangzhou Fengjing.

Contractual Arrangements with Our Consolidated Affiliated Entities and Their Respective Shareholders

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunication services and certain other businesses. We are an exempted company incorporated in the Cayman Islands. Yunchuang Sharing is our PRC subsidiary and a foreign-invested enterprise under PRC laws. To comply with PRC laws and regulations, we conduct certain of our business in China through Yunji Sharing, Yunji Preferred, Hangzhou Chuanchou and Hangzhou Fengjing, our consolidated affiliated entities in the PRC, based on a series of contractual arrangements by and among Yunchuang Sharing, our VIEs and their shareholders. We refer to Yunchuang Sharing as our WFOE, and Yunji Sharing, Yunji Preferred, Hangzhou Chuanchou and Hangzhou Fengjing collectively as our VIEs in this annual report.

Our contractual arrangements with our VIEs and their respective shareholders allow us to (i) exercise effective control over our VIEs, (ii) receive substantially all of the economic benefits of our VIEs, and (iii) have an exclusive option to purchase all or part of the equity interests in our VIEs when and to the extent permitted by PRC law.

As a result of our direct ownership in our WFOE and the contractual arrangements with our VIEs, we are regarded as the primary beneficiary of our VIEs, and we treat them and their subsidiaries as our consolidated affiliated entities under U.S. GAAP. We have consolidated the financial results of our VIEs and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

Agreements that provide us with effective control over our VIEs

Proxy Agreement and Power of Attorney. Pursuant to the amended and restated proxy agreement and power of attorney, dated December 14, 2018, among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred, each of the shareholders of Yunji Preferred has executed a power of attorney to irrevocably authorize our WFOE, or any person designated by our WFOE, to act as its attorney-in-fact to exercise all of its rights as a shareholder of Yunji Preferred, including, but not limited to, the right to (i) convene and attend shareholders' meetings, (ii) sign and deliver written resolutions on behalf of such shareholder, (iii) vote on any resolution that requires shareholders to vote, such as the sale, transfer and disposal of all or part of the assets owned by a shareholder, and (iv) sell, transfer, pledge or dispose all or part of a shareholder's equity interests in Yunji Preferred. The powers of attorney will remain effective until such shareholder ceases to be a shareholder of Yunji Preferred or otherwise instructed by our WFOE.

On December 17, 2018, our WFOE, Yunji Sharing and the shareholders of Yunji Sharing entered into an amended and restated proxy agreement and power of attorney, and each of the shareholders of Yunji Sharing executed a power of attorney, which contained terms substantially similar to the proxy agreement and power of attorney by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above.

On October 23, 2020, our WFOE, Hangzhou Chuanchou and the shareholder of Hangzhou Chuanchou entered into a proxy agreement and power of attorney, and the shareholder of Hangzhou Chuanchou executed a power of attorney, which contained terms substantially similar to the proxy agreement and power of attorney by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above.

On December 18, 2020, our WFOE, Hangzhou Fengjing and the shareholders of Hangzhou Fengjing entered into a proxy agreement and power of attorney, and each of the shareholders of Hangzhou Fengjing executed a power of attorney, which contained terms substantially similar to the proxy agreement and power of attorney by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above.

Equity Interest Pledge Agreements. Pursuant to the amended and restated equity interest pledge agreement, dated December 14, 2018, among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred, the shareholders of Yunji Preferred have pledged 100% equity interests in Yunji Preferred to our WFOE to guarantee performance by the shareholders of their obligations under the exclusive option agreement, the exclusive service agreement, the proxy agreement and power of attorney, as well as the performance by Yunji Preferred of its obligations under the exclusive option agreement and the exclusive service agreement. In the event of a breach by Yunji Preferred or any of its shareholders of contractual obligations under these contractual arrangements, our WFOE, as pledgee, will have the right to dispose of the pledged equity interests in Yunji Preferred and will have priority in receiving the proceeds from such disposal. The shareholders of Yunji Preferred also covenant that, without the prior written consent of our WFOE, they will not dispose of, create or allow any encumbrance on the pledged equity interests. The equity interest pledge agreement will remain effective until the pledges are released.

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On December 17, 2018, our WFOE, Yunji Sharing and the shareholders of Yunji Sharing entered into an amended and restated equity interest pledge agreement, which contained terms substantially similar to the equity interest pledge agreement by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above.

On October 23, 2020, our WFOE, Hangzhou Chuanchou and the shareholder of Hangzhou Chuanchou entered into an equity interest pledge agreement, which contained terms substantially similar to the equity interest pledge agreement by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above.

On December 18, 2020, our WFOE, Hangzhou Fengjing and the shareholders of Hangzhou Fengjing entered into an equity interest pledge agreement, which contained terms substantially similar to the equity interest pledge agreement by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above.

We have completed the registration of the equity interest pledge under the amended and restated equity interest pledge agreements in relation to each of Yunji Preferred and Yunji Sharing with the relevant office of the State Administration of Market Regulation. We are in the process of applying the registration of the equity interest pledge under the equity interest pledge agreements in relation to each of Hangzhou Chuanchou and Hangzhou Fengjing.

Agreements that allow us to receive economic benefits from our VIEs

Exclusive Service Agreements. Pursuant to the amended and restated exclusive service agreement, dated December 14, 2018, between our WFOE and Yunji Preferred, our WFOE has the exclusive right to provide Yunji Preferred with operational supports as well as consulting and technical services required by Yunji Preferred's business. Without our WFOE's prior written consent, Yunji Preferred may not accept the same or similar operational supports as well as consulting and technical services provided by any third party during the term of the agreement. Yunji Preferred agrees to pay our WFOE service fees at an amount determined by our WFOE in its sole discretion, which should be paid within ten business days upon receipt of invoice from our WFOE. Our WFOE has the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive service agreement. To guarantee Yunji Preferred's performance of its obligations thereunder, the shareholders of Yunji Preferred have pledged all of their equity interests in Yunji Preferred to our WFOE pursuant to the equity interest pledge agreement. The exclusive service agreement has an initial term of ten years and shall automatically renew at the end of each term for a further term of ten years, unless otherwise terminated by our WFOE in its sole discretion with 30 days' prior written notice.

On December 17, 2018, our WFOE and Yunji Sharing entered into an amended and restated exclusive service agreement, which contains terms substantially similar to the exclusive service agreement between our WFOE and Yunji Preferred described above.

On October 23, 2020, our WFOE and Hangzhou Chuanchou entered into an exclusive service agreement, which contains terms substantially similar to the exclusive service agreement between our WFOE and Yunji Preferred described above.

On December 18, 2020, our WFOE and Hangzhou Fengjing entered into an exclusive service agreement, which contains terms substantially similar to the exclusive service agreement between our WFOE and Yunji Preferred described above.

Agreements that provide us with the option to purchase the equity interests in and assets of our VIEs

Exclusive Option Agreements. Pursuant to the amended and restated exclusive option agreement, dated December 14, 2018, among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred, each of the shareholders has irrevocably granted our WFOE an exclusive option to purchase all or part of its equity interests in Yunji Preferred, and Yunji Preferred has irrevocably granted our WFOE an exclusive option to purchase all or part of its assets. Our WFOE may exercise such options at a price equal to the loan provided by our WFOE to the shareholders of Yunji Preferred, which price may be adjusted based on the proportion of the equity interests or assets to be transferred. Yunji Preferred and the shareholders of Yunji Preferred covenant that, without our WFOE's prior written consent, they will not, among other things, (i) create any pledge or encumbrance on their equity interests in Yunji Preferred, other than those created under the equity interest pledge agreement, (ii) transfer or otherwise dispose of their equity interests in Yunji Preferred, (iii) change Yunji Preferred's registered capital, (iv) amend Yunji Preferred's articles of association, (v) dispose any assets of Yunji Preferred or enter into any material contract (except in the ordinary course of business), or (vi) merge Yunji Preferred with any other entity. The exclusive option agreement has an initial term of ten years and shall automatically renew at the end of each term for a further term of ten years, unless otherwise terminated by our WFOE in its sole discretion with ten days' prior written notice.

On December 17, 2018, our WFOE, Yunji Sharing and the shareholders of Yunji Sharing entered into an amended and restated exclusive option agreement, which contained terms substantially similar to the exclusive option agreement by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above, except that our WFOE may exercise the options to purchase the equity interests and assets of Yunji Sharing at the price of RMB1.00 or the lowest price permitted under applicable PRC law.

On October 23, 2020, our WFOE, Hangzhou Chuanchou and the shareholder of Hangzhou Chuanchou entered into an exclusive option agreement, which contained terms substantially similar to the exclusive option agreement by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above, except that our WFOE may exercise the options to purchase the equity interests and assets of Hangzhou Chuanchou at the price of RMB1.00 or the lowest price permitted under applicable PRC law.

On December 18, 2020, our WFOE, Hangzhou Fengjing and the shareholders of Hangzhou Fengjing entered into an exclusive option agreement, which contained terms substantially similar to the exclusive option agreement by and among our WFOE, Yunji Preferred and the shareholders of Yunji Preferred described above, except that our WFOE may exercise the options to purchase the equity interests and assets of Hangzhou Fengjing at the price of RMB1.00 or the lowest price permitted under applicable PRC law.

Loan Agreement. Pursuant to the loan agreement, dated December 14, 2018, between our WFOE and the shareholders of Yunji Preferred, our WFOE made loans in an aggregate amount of RMB12.12 million to the shareholders of Yunji Preferred for the sole purpose of making capital contribution to Yunji Preferred. The shareholders of Yunji Preferred can only repay the loans by the sale of all or part of their equity interests in Yunji

Preferred to our WFOE or its designated person pursuant to the amended and restated exclusive option agreement, and, to the extent permitted under PRC law, pay all of the proceeds from sale of such equity interests to our WFOE. In the event that the shareholders of Yunji Preferred sell their equity interests in Yunji Preferred to our WFOE or its designated person at a purchase price equal to or less than the principal amount of the loans, the loans will be interest free and the loans shall be deemed to be duly repaid. If the purchase price is higher than the principal amount of the loans, the excess amount will be deemed as interest on the loans and shall be paid to our WFOE. The term of the loan agreement is ten years from the date of the loan agreement, which may be extended upon mutual agreement.

Spousal Consent Letters. The spouses of the shareholders of Yunji Preferred have each signed a spousal consent letter agreeing that the equity interests in Yunji Preferred held by and registered under the name of the respective shareholders will be disposed pursuant to the contractual agreements with our WFOE. Each spouse agreed not to assert any rights over the equity interest in Yunji Preferred held by the respective shareholder. Mr. Wenwei Shu, the sole shareholder of Hangzhou Chuanchou and one of the shareholders of Hangzhou Fengjing, has no spouse yet. The spouse of Mrs. Panyan Ding, the other shareholder of Hangzhou Fengjing, has signed a spousal consent letter agreeing that the equity interests in Hangzhou Fengjing held by and registered under the name of Mrs. Ding will be disposed pursuant to the contractual agreements with our WFOE. The spouse of Mrs. Ding agreed not to assert any rights over the equity interest in Hangzhou Fengjing held by Mrs. Ding.

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

- the ownership structures of our VIEs in China and our WFOE are not in violation of applicable PRC laws and regulations currently in effect; and

- the contractual arrangements between our WFOE, our VIEs and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of applicable PRC laws and 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 VIEs are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to 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. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.”

D. Property, Plant and Equipment

We are headquartered in Hangzhou, China and have leased an aggregate of approximately 10,257 square meters of office space in Hangzhou. As of the date of this annual report, we have also leased an aggregate of approximately 2,998 and 5,446 square meters of office space in Hefei and Shenzhen, China, respectively.

As of December 31, 2020, warehouse facilities in our fulfillment network included three central warehouses and 14 regional warehouses in China. We engage third-party vendors for all of our warehouse facilities in 11 cities with an aggregate floor area of approximately 107,800 square meters, including providing physical space for such facilities and operating the day-to-day activities of such facilities.

We will adjust our fulfillment infrastructure as needed over the next several years to accommodate our future business expansion plans, further improve logistic efficiency and enhance customer experience.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

We operate a social e-commerce platform in China using a unique, membership-based model that leverages the power of social interaction. We offer high-quality products at attractive prices and incentivize our members to promote our platform and share our products with their social contacts. We generate our revenues mainly by selling the products on our platform to users, including members and non-member users, and earning commissions on the sales of products by third-party merchants on our platform under our marketplace business that launched in the first quarter of 2019.

Our total revenues were RMB13,015.2 million, RMB11,672.0 million and RMB5,530.3 million (US\$847.5 million) in 2018, 2019 and 2020, respectively. The decreases in total revenues in 2019 and 2020 were primarily due to decreases in revenues from sales of merchandise as we shifted portions of our merchandise sales business to our marketplace business whereby third-party merchants can sell products on our platform and pay us commissions on their sales. Revenues generated under the marketplace business were recognized on a net basis, while revenues generated under our merchandise sales business were recognized on a gross basis. We recorded net loss of RMB151.7 million (US\$23.2 million), RMB123.8 million and RMB56.3 million in 2020, 2019, and 2018, respectively.

Key Factors Affecting Our Results of Operations

Our results of operations and financial condition are affected by the general factors affecting China's retail industry, including, among others, China's overall economic growth, the increase in per capita disposable income, the growth in consumer spending and consumption upgrade, and the competitive environment in China. In addition, they are also affected by factors driving online retail in China, such as the growing number of online shoppers, the improved logistics infrastructure and the increasing adoption of mobile payments. Unfavorable changes in any of these general factors could materially and adversely affect our results of operations.

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

Our ability to attract members and users and increase their activities

Attracting, engaging and retaining users have been one of our key focuses since our inception. We measure our effectiveness in attracting, engaging and retaining users through several key performance indicators, including the number of buyers who place orders on our platform, the number of orders we fulfill and the number of orders fulfilled by the third-party merchants selling products under our marketplace business. Our ability to attract and retain users and increase user activities depends on our ability to continue to offer carefully curated authentic products at attractive prices, provide superior shopping and social experience, and promote and enhance community value among members and other users. We have been able to build a large base of users through, among other means, word-of-mouth referrals via our members' social networks and both online and offline interactive events. Only when our members are satisfied with the products and experience on our platform, would they stay active on our platform, and in turn promote our products and recommend platform to their family, friends and other social contacts. To grow our user base and keep them engaged, we have implemented a distinctive product offering strategy whereby we offer broad coverage of product categories with an aim of catering to the various daily needs of users and their households, but carefully select items within each category meeting the preferences of users with attractive pricing, and we design our sales formats to meet our members' evolving needs and preferences. We also facilitate communications among members based on geographical location or shared interest. Furthermore, we provide incentives and organize campaign activities to enhance user activities.

Our ability to manage product offerings and supply chain

Our results of operations are also affected by whether we can successfully implement our product selection strategy and manage our product offerings. We offer broad coverage of product categories to cater to the various daily needs of our users and their households, but provide carefully curated items within each category to meet the preferences of our users. In December 2020, we offered an average of 17,090 SPUs on our platform on a daily basis, including products of mainstream brands, emerging brands and our own brands. While we will continue to work with reputable brand owners with good track records, we intend to broaden and deepen our cooperation with high-quality manufacturing partners to increase our offering of private label products. We review and continually monitor the performance of each SPU, supplier and third-party merchant, and carefully manage the mix of products we offer, based on a number of metrics such as the preferences of users, revenue contribution and margin.

We make continual efforts to maintain and improve an efficient cost structure and create incentives for our suppliers and third-party merchants to provide us and our members with competitive prices. As our business further grows in scale, we strive to obtain more favorable terms from suppliers, including pricing terms and volume-based rebates. In addition, we aim to create value for our suppliers and third-party merchants by providing an effective channel for selling large volumes of their products online and by offering them comprehensive information on customer preferences and market demand and ensuring the high quality of fulfillment services. We believe this value proposition also helps us obtain favorable terms from suppliers and third-party merchants.

Our Ability to Manage Our Mix of Product and Service Offerings

Our results of operations are also affected by the mix of products and services we offer. We commenced our e-commerce business by primarily selling products directly on our platform to users, including both members and non-members. We launched our marketplace business in the first quarter of 2019 whereby third-party merchants can sell products on our platform and pay us commissions on their sales. We offer a wide range of products and services and aim to provide one-stop shopping to maximize our wallet share. Our mix of products and services also affects our gross margin. Revenues generated under the marketplace business were recognized on a net basis, while revenues generated under our merchandise sales business were recognized on a gross basis. The split between our merchandise sales business and our marketplace business thus has a major influence on our revenue growth and our gross margins. We intend to further expand our selection of general merchandise products and attract more quality third-party merchants to our marketplace business.

Our ability to conduct sales and marketing efficiently

A key advantage of our business model that distinguishes us from many other players in China's e-commerce industry is our ability to leverage our members' social networking activities to conduct sales and marketing efficiently. We provide incentives to members for promoting our products and inviting new members through their social networks, and the referral incentives are recorded as reduction of our revenues. We outsource some member services to third-party service companies, which select, hire and train service managers to provide the services. Most of the service managers are members. We pay member management fees to the third-party service companies for their product sales facilitation services. The member management fees have accounted for the substantial majority of our sales and marketing expenses.

In addition, we intend to invest more efforts in marketing and brand promotion activities both online and offline. Such initiatives would not only support an increase in the number and activities of our members, but also allow us to expand our user base to reach a broader range of online purchasers. We believe an increase in the number of users accessing and making purchases on our platform, whether or not they are members, would result in significant growth in our revenues and scale.

Our ability to fulfill orders cost-effectively

Our results of operations depend in part on our ability to fulfill orders quickly and accurately, as it is an important part of a compelling customer experience. We provide centralized and comprehensive fulfillment and customer service to users primarily through collaboration with contracted third-party vendors. As of December 31, 2020, warehouse facilities in our fulfillment network included three central warehouses and 14 regional warehouses, with an aggregate gross floor area of approximately 107,800 square meters in 11 cities. In the first quarter of 2019, we launched our marketplace business, allowing third-party merchants to sell their products on our platform and pay commissions on their sales to us. Unlike our merchandise sales business where we handle the fulfillment process for the products sold, substantially all of the third-party merchants under our marketplace business handle the fulfillment logistics for their products sold on our platform, thereby lessening the demand for expansion of our fulfillment infrastructure. We have started and will continue integrating and consolidating our warehouse facilities to improve the efficiency in fulfilling orders placed from all areas in China under our merchandise sales business and to enhance customer experience. We have primarily relied on third-party logistics service providers to operate the warehouses and provide last-mile delivery, third-party online payment platforms to provide various payment options, and BPO arrangements to provide customer services. As our user base grows and business evolves, we may invest more resources in operating fulfillment facilities and hiring our own personnel to better meet the demands of our anticipated growth, and we must make such investments in a cost-effective manner.

Our ability to effectively invest in technology

We have invested, and will continue to invest, in research and development and technology. As our business grows, and as we continue to expand and enhance our platform, we will continue to invest in personnel with expertise in big data analytics and AI technologies, and other research and development personnel. In addition, we have dedicated and will continue to dedicate resources to research and development efforts, focusing on developing innovative applications and solutions aimed at providing more convenience to users, further enhancing our supply chain management capabilities and increasing our operational efficiency. Moreover, we will also continue to invest resources in the development of our technology infrastructure to support the growth of our business.

Impact of COVID-19 On Our Operations

Substantially all of our revenues are derived from online retail sales in China. Our results of operations and financial condition in 2020, and in the first quarter of 2020 in particular, were affected by the outbreak of COVID-19 that severely impacted China and the rest of the world beginning in January 2020. In early 2020, the COVID-19 pandemic resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. Given the strict implementation of quarantine measures during this period, we, our suppliers, third-party merchants, third-party logistics service providers and other business partners experienced various degrees of temporary shutdowns and delays in commencement of operations. In addition, during this period of outbreak, the level of engagement of our members and users declined compared to the prior period due to the COVID-19 outbreak; our ability to fulfill orders cost-effectively were adversely affected; and we experienced difficulties in maintaining our desired efficient cost structure and creating incentives for our suppliers and third-party merchants to provide us and our members with competitive prices, as we work to ensure supply availability, maintain price stability, and prevent price gouging of daily essential items and epidemic containment materials on our platform to support the well-being of our members and users.

Many of the quarantine measures within China have since been relaxed, and we, together with our suppliers, third-party merchants, third-party logistics service providers and other business partners, have gradually resumed normal operations since early March 2020. The COVID-19 global pandemic has resulted in, and may intensify, global economic distress, and the duration and extent of the impact of COVID-19 outbreak is highly uncertain at this time. The extent to which it may affect our results of operations, especially our product mix, our financial condition and our cash flows will depend on the future development of the outbreak, which is also highly uncertain and difficult to predict and will depend on a number of factors, including the duration and severity of COVID-19, the extent and severity of new waves of outbreak in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment and the effectiveness of such vaccine and other medical treatment, and the actions taken by government authorities to contain the outbreak, all of which are beyond our control. If the situation materially deteriorates in China or globally, our business, results of operations and financial condition could be materially and adversely affected. In particular, recently there have been new waves of outbreaks in various cities in China and if the situation materially deteriorates in China, the Chinese government may again implement strict quarantine measures to contain the new waves of outbreak and our operations and the operations of our business partners may be materially and adversely affected.

As of December 31, 2020, we had cash, cash equivalents and restricted cash of RMB1,189.7 million (US\$182.3 million). We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

See “Item 3. Key Information—3.D. Risk Factors—Risks Related to Our Business and Industry—We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.”

Key Components of Results of Operations

Revenues

Revenues are comprised of sale of merchandise, net, membership program revenue, marketplace revenue and other revenues. The following table sets forth the components of our revenues by amounts and percentages of our total revenues for the periods presented:

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Revenues:							
Sale of merchandise, net	11,388,425	87.5	10,548,322	90.3	4,829,397	740,138	87.3
Membership program revenue	1,552,437	11.9	776,839	6.7	42,438	6,503	0.8
Marketplace revenue	—	0.0	311,914	2.7	599,895	91,938	10.8
Other revenues	74,363	0.6	34,949	0.3	58,527	8,970	1.1
Total	13,015,225	100.0	11,672,024	100.0	5,530,257	847,549	100.0

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Revenues generated from sales of most products on our platform are recorded as revenues from sale of merchandise, net of discounts, coupons, referral incentives provided to members, return allowances and VAT. We acquire products from suppliers and sell them to users. We expect revenues generated from sale of merchandise will continue to account for a majority of our total revenues.

We earn membership fees from our members, who pay a fixed fee in exchange for (1) a package of selected products, (2) the right to receive member exclusive discounts for products sold on our flagship *Yunji* app, (3) access rights to our flagship *Yunji* app and its member-exclusive features, (4) the right to receive units of Yun-coin upon a successful new member referral, (5) member exclusive training, and (6) certain units of Yun-coin. Yun-coin can only be used as credits when making purchases on our platform, with one unit of Yun-coin representing RMB1.00. Yun-coins cannot be redeemed for cash. Members may transfer Yun-coins to others for free. In order to stimulate our users' interest in transacting on our platform and attract more members, in 2019, we provided each non-member user with a free three-month experiential period during which time the user had access to the full spectrum of membership benefits. After the three-month experiential period, the user could become our member if he or she met a certain cumulative spending threshold or certain other requirements during the experiential period or if he or she purchased one of our membership packages. Starting in January 2020, we further refined our membership enrollment system by allowing any user to become a member and enjoy membership benefits free of charge for one year by simply registering for an account on the *Yunji* app. If the user meets a certain cumulative spending threshold or certain other requirements during the initial one-year period, the user may extend his or her membership for an extra year. As a result of the refinement of our membership enrollment system in 2020, revenues from membership program in 2020 were from deferred revenue of prior paying members. We have ceased allowing users to become members free of charge since April 1, 2021. We currently require new users and renewing members to pay an annual membership fee to become or continue as a member and enjoy membership benefits. In addition, current members who became members through purchasing a membership package are now referred to as our diamond members and enjoy free lifelong membership and membership benefits. Other current members could also become diamond members if they spend RMB398 or more by the earlier of (i) the expiration date of their current membership and (ii) December 31, 2021.

In the first quarter of 2019, we launched our marketplace business, allowing third-party merchants to sell their products on the platform and pay commissions on their sales to us. The revenues from the marketplace business is recognized on a net basis.

Other revenues include revenues earned on net basis from sales of certain products on our platform, such as air tickets, tourist attractions tickets, cruise, group tour, hotel reservation and car insurance policies and revenues generated from offering loans to qualified customers.

Operating Cost and Expenses

Operating cost and expenses consist primarily of cost of revenues, fulfillment expenses, sales and marketing expenses, research and development expenses, and general and administrative expenses. The following table sets forth the components of our operating expenses by amounts and percentages of total revenues for the periods presented:

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Operating Cost and Expenses:							
Cost of revenues	10,706,596	82.3	9,249,474	79.2	3,939,997	603,830	71.2
Fulfillment	1,162,051	8.9	965,883	8.3	450,104	68,981	8.1
Sales and marketing	955,128	7.3	1,187,462	10.2	806,140	123,546	14.6
Technology and content	143,645	1.1	315,167	2.7	202,817	31,083	3.7
General and administrative	147,208	1.1	277,487	2.4	261,877	40,135	4.7
Total	13,114,628	100.8	11,995,473	102.8	5,660,935	867,575	102.3

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Cost of revenues. Cost of revenues consists of purchase price of merchandise, inbound shipping charges, write-downs of inventory and member training costs. Inbound shipping charges to receive merchandise from suppliers are included in the inventories, and recognized as cost of revenues upon sale of the merchandise to the customers.

Fulfillment expenses. Fulfillment expenses represent packaging material costs and those costs incurred in outbound shipping, operating and staffing our fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting and warehousing inventories, picking, packaging and preparing customer orders for shipment, processing payment and related transaction costs and responding to inquiries from customers, depreciation expenses, payroll costs including share-based compensation expenses, and other daily expenses which are related to the purchasing functions. Fulfillment costs also contain third-party payment transaction fees, such as bank card processing and debit card processing fees.

Sales and marketing expenses. Sales and marketing expenses comprise primarily of member management fees, promotion expenses, marketplace coupons, payroll costs including share-based compensation expenses, depreciation expenses and other daily expenses which are related to the sales and marketing functions. We engage third-party vendors to provide member management services, which are ultimately performed by service managers who enter into employment contracts with the third-party vendors. Certain of our members (customers) have been engaged by third-party vendors to serve as service managers. We have concluded that the member management services provided by the service managers, including those who are also members, are for distinct services at fair value, and records the member management fees paid to the third-party vendors as sales and marketing expenses.

Technology and content expenses. Technology and content expenses are expensed as incurred and primarily consist of payroll costs including share-based compensation expenses, rental expenses, costs associated with the computing, storage and telecommunications infrastructure for internal use that support our system and the services of our apps and other expenses related to the technology and content functions, which are responsible for technology research and development and content editing. We account for internal use software development costs in accordance with guidance on intangible assets and internal use software. This requires capitalization of qualifying costs incurred during the software's application development stage and to expense costs as they are incurred during the preliminary project and post implementation/operation stages. Costs capitalized for developing such software application were not material for the periods presented in this annual report.

General and administrative expenses. General and administrative expenses consist of payroll costs including share-based compensation expenses and other expenses which are related to the general corporate functions, including accounting, finance, tax, legal and human relations, costs associated with use by these functions of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

Taxation

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. There are no exchange control regulations or currency restrictions in the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiary incorporated in Hong Kong, Yunji Hong Kong Limited, is subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiary to us are not subject to any Hong Kong withholding tax. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during 2016 and 2017.

PRC

In accordance with PRC Enterprise Income Tax Law, foreign-invested enterprises and domestic companies are subject to enterprise income tax on their taxable income at a statutory rate of 25%. In accordance with the implementation rules of PRC Enterprise Income Tax Law, a qualified “High and New Technology Enterprise” is eligible for a preferential tax rate of 15%. The “High and New Technology Enterprise” certificate is effective for a period of three years. An entity may re-apply for the “High and New Technology Enterprise” certificate when the prior certificate expires.

Jishang Preferred obtained its “High and New Technology Enterprise” certificate on November 30, 2018. Therefore, Jishang Preferred is eligible to enjoy a preferential tax rate of 15% from 2018 to 2020 to the extent it has taxable income under the PRC Enterprise Income Tax Law, as long as it maintains the “High and New Technology Enterprise” qualification and duly conducts relevant tax filing procedures with the relevant tax authority. From July 2019, Jishang Preferred started to function as a Procurement company within the Group and is not able to continue its status as an HNTE to enjoy a preferential tax rate of 15% since 2019.

Our other PRC subsidiaries, VIEs and their subsidiaries are subject to the statutory income tax rate of 25%.

In accordance with the relevant laws and regulations promulgated by the SAT effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year. The additional deduction of 50% of qualified research and development expenses can only be claimed directly in the annual tax filing and subject to the approval from the relevant tax authorities. Effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their qualified research and development expenses so incurred as tax deductible expenses. The additional deduction of 75% of qualified research and development expenses can be directly claimed in the annual tax filing.

We are subject to value-added tax rate of 13% on our sales of products (which was 16% prior to April 1, 2019), and 6% on the services provided to members (such as technology support, product promotion consulting and support, online training, customer service and order fulfillment), in each case less any deductible value-added tax we have already paid or borne. While we generate a portion of our revenues by selling products to end users through member referrals, such referrals are treated as if selling products to members while the members being deemed as selling products to end users on a consignment basis under PRC tax law. We are also subject to surcharges on value-added tax payments in accordance with the PRC tax law.

Dividends paid by our WFOE to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—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.”

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information— 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.”

Results of Operations

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

	For the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
(in thousands, except for per share data)				
Consolidated Statements of Operations Data:				
Revenues:				
Sale of merchandise, net	11,388,425	10,548,322	4,829,397	740,138
Membership program revenue	1,552,437	776,839	42,438	6,503
Marketplace revenue	—	311,914	599,895	91,938
Other revenues	74,363	34,949	58,527	8,970
Total revenues	13,015,225	11,672,024	5,530,257	847,549
Operating cost and expenses⁽¹⁾:				
Cost of revenues	(10,706,596)	(9,249,474)	(3,939,997)	(603,830)
Fulfillment	(1,162,051)	(965,883)	(450,104)	(68,981)
Sales and marketing	(955,128)	(1,187,462)	(806,140)	(123,546)
Technology and content	(143,645)	(315,167)	(202,817)	(31,083)
General and administrative	(147,208)	(277,487)	(261,877)	(40,135)
Total operating cost and expenses	(13,114,628)	(11,995,473)	(5,660,935)	(867,575)
Other Operating Income ⁽²⁾	7,048	68,646	33,218	5,091
Loss from operations	(92,355)	(254,803)	(97,460)	(14,935)
Financial income/(expense), net	46,068	121,370	(8,571)	(1,314)
Foreign exchange loss, net	(685)	(12,397)	(919)	(141)
Other non-operating income/(loss), net	—	8,497	(1,610)	(247)
Loss before income tax expense, and equity in income of affiliates, net of tax	(46,972)	(137,333)	(108,560)	(16,637)
Income tax (expense)/benefit	(12,346)	16,720	(39,298)	(6,022)
Equity in income/(loss) of affiliates, net of tax	2,992	(3,221)	(3,834)	(586)
Net loss	(56,326)	(123,834)	(151,692)	(23,245)

Notes:

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

	For the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
(in thousands)				
Sales and marketing	3,192	29,884	12,362	1,792
Technology and content	4,434	10,562	8,887	1,288
General and administrative	41,932	79,011	71,777	10,403
Fulfillment	4,742	8,740	5,352	776
Total	54,300	128,197	98,378	14,259

- (2) Starting from 2020, we present government grants, which are received from local government to support and reward our ongoing business and operations, as other operating income instead of other non-operating income/(loss), net. The relevant item in the prior year periods of RMB 7,048 and RMB 43,599 for the year ended December 31, 2018 and 2019, respectively, are also reclassified from other non-operating income/(loss), net to other operating income, to be in conformity with the presentation for the year ended December 31, 2020.

Year ended December 31, 2020 compared to year ended December 31, 2019**Revenues**

Our revenues decreased by 52.6% from RMB11,672.0 million in 2019 to RMB5,530.3 million (US\$847.5 million) in 2020, primarily due to a decrease in revenues from sales of merchandise as a result of an increase in the proportion of our business contributed from our marketplace business, which was launched in the first quarter of 2019. Marketplace revenue was generated on the marketplace business platform and recognized on a net basis, while sale of merchandise, net was generated on the merchandise sales platform and recognized on a gross basis. The number of orders fulfilled under our merchandise sales business decreased by 32.1% from 166.6 million in 2019 to 113.2 million in 2020 and the number of orders fulfilled by third-party merchants under the marketplace business grew by 90.2% from 34.6 million in 2019 to 65.8 million in 2020. The number of buyers decreased slightly from 22.5 million in 2019 to 17.4 million in 2020. Our GMV increased by 1.8% from RMB35.3 billion in 2019 to RMB35.9 billion in 2020. The decrease in total number of orders fulfilled by us and by third-party merchants and the decrease in the number of buyers from 2019 to 2020 are mainly attributable to the fact that a significant portion of the new members and users we attracted to our platform in 2019 through large-scale user acquisition campaigns did not become loyal members of our platform and subsequently left our platform in 2020. Starting in 2020, we have placed more emphasis on enhancing member and user loyalty and activities, which contributed to the increase in GMV in 2020 compared to 2019 despite the decrease in number of buyers during the same period.

- *Revenue from sale of merchandise, net.* Our revenue from sale of merchandise, net decreased by 54.2% from RMB10,548.3 million in 2019 to RMB4,829.4 million (US\$740.1 million) in 2020 due to a portion of merchandise sales shifted to marketplace business platform as we continued to reallocate our internal resources to accommodate the increase of marketplace business and to further improve the operational efficiencies on our platform.
- *Revenue from membership programs.* Membership program revenue decreased by 94.5% from RMB776.8 million in 2019 to RMB42.4 million (US\$6.5 million) in 2020, primarily due to our ongoing refinement of our membership enrollment system. Beginning in January 2020, we have allowed any user to become a member and enjoy membership benefits free of charge for one year by simply registering for an account on the *Yunji* app. Revenues from the membership program in 2020 were from the deferred revenue of prior paying members.
- *Revenue from marketplace business.* Revenue from the marketplace business increased by 92.3% from RMB311.9 million in 2019 to RMB599.9 million (US\$91.9 million) in 2020, primarily due to the increased number of popular brands and merchants on our platform and the increased sales through a diverse range of sales channels on other platforms.
- *Other revenues.* Other revenues increased by 67.5% from RMB34.9 million in 2019 to RMB58.5 million (US\$9.0 million) in 2020.

Operating cost and expenses

Our total operating cost and expenses decreased by 52.8% from RMB11,995.5 million in 2019 to RMB5,660.9 million (US\$867.6 million) in 2020. This decrease was due to decreases in all of our operating cost and expenses line items.

- *Cost of revenues.* Our cost of revenues decreased by 57.4% from RMB9,249.5 million, representing 79.2% of our total revenues, in 2019 to RMB3,940.0 million (US\$603.8 million), representing 71.2% of our total revenues, in 2020, which was mainly attributable to the decline in our merchandise sales, which recognize revenues on a gross basis.

- *Fulfillment expenses.* Our fulfillment expenses decreased by 53.4% from RMB965.9 million, representing 8.3% of our total revenues, in 2019 to RMB450.1 million (US\$69.0 million), representing 8.1% of our total revenues, in 2020. This decrease was primarily attributable to (i) reduced warehousing and logistics expenses due to lower merchandise sales and improved logistics efficiency, (ii) decreased service fees charged by third-party payment settlement platforms as we secured lower transaction fee rates, (iii) reduced personnel costs due to headcount optimization and (iv) decreased share-based compensation expenses, which included a reversal of RMB8.9 million in share-based compensation expenses that had been recognized in 2019.
- *Sales and marketing expenses.* Our sales and marketing expenses decreased by 32.1% from RMB1,187.5 million, representing 10.2% of our total revenues, in 2019 to RMB806.1 million (US\$123.5 million), representing 14.6% of our total revenues, in 2020. The decrease in sales and marketing expenses was primarily attributable to the reduction in member management fees as a result of improvements to our member management efficiency. This decrease was partially offset by an increase in business promotion expenses, which resulted from our efforts to attract more popular brands and merchants to our marketplace business through the execution of more business development activities.
- *Technology and content expenses.* Our technology and content expenses decreased by 35.6% from RMB315.2 million, representing 2.7% of our total revenues, in 2019 to RMB202.8 million (US\$31.1 million), representing 3.7% of our total revenues, in 2020, primarily due to (i) reduced server costs resulting from the better contract terms that we secured with our server providers, and (ii) reduced personnel costs as a result of headcount optimization.
- *General and administrative expenses.* Our general and administrative expenses decreased by 5.6% from RMB277.5 million, representing 2.4% of our total revenues, in 2019 to RMB261.9 million (US\$40.1 million), representing 4.7% of our total revenues, in 2020. The decrease was primarily attributable to reduced personnel costs as a result of headcount optimization, and decreased share-based compensation expenses, which included a reversal of RMB25.9 million in share-based compensation expenses that had been recognized in 2019. The decrease was partially offset by higher professional service fees.

Loss from operations

Our loss from operations was RMB97.5 million (US\$14.9 million) in 2020, compared to RMB254.8 million in 2019. The decrease in our loss from operations was primarily due to improvements in our operating efficiency.

Financial income/(loss), net

Our financial loss, net was RMB8.6 million (US\$1.3 million) in 2020, compared to financial income, net of RMB121.4 million in 2019 as a result of a decrease in the readily determinable fair value of our investment in the equity securities of a Hong Kong listed Company, GXG(1817.HK).

Foreign exchange loss, net

We recorded foreign exchange loss, net of RMB0.9 million (US\$0.1 million) in 2020, compared to RMB12.4 million in 2019 primarily due to the depreciation of U.S. dollar against the Renminbi.

Income tax benefit/(expense)

We recorded income tax expense of RMB39.3 million (US\$6.0 million) in 2020, compared to income tax benefit of RMB16.7 million in 2019, primarily due to the increase in the valuation allowance as it was more likely than not that we will not be able to utilize tax loss carry forwards generated by certain unprofitable subsidiaries.

Net loss

As a result of the foregoing, we recorded net loss of RMB151.7 million (US\$23.2 million) in 2020, compared to RMB123.8 million in 2019.

Year ended December 31, 2019 compared to year ended December 31, 2018**Revenues**

Our revenues decreased by 10.3% from RMB13,015.2 million in 2018 to RMB11,672.0 million in 2019, primarily due to a decrease in revenues from sales of merchandise as a result of an increase in the proportion of our business contributed from our marketplace business platform, which was launched in the first quarter of 2019. Marketplace revenue was generated on the marketplace business platform and recognized on a net basis, while sale of merchandise, net was generated on the merchandise sales platform and recognized on a gross basis. The number of orders fulfilled under our merchandise sales business grew by 8.5% from 153.4 million in 2018 to 166.6 million in 2019 and the number of orders fulfilled by third-party merchants under the marketplace business in 2019 was 34.6 million. The significant increase in the total number of orders fulfilled by us and our third-party merchants in 2019 was primarily due to (i) our ability to continually optimize the mix of our product offerings and carefully curate products of higher quality at attractive prices to fulfill buyers' needs, and (ii) our unique membership-based social e-commerce model that led to exponential growth in our member base, which we have relied upon for promotion of products and new membership referrals, while the number of buyers decreased slightly from 23.2 million in 2018 to 22.5 million in 2019.

- *Revenue from sale of merchandise, net.* Our revenue from sale of merchandise, net decreased by 7.4% from RMB11,388.4 million in 2018 to RMB10,548.3 million in 2019 due to an increase in the proportion of our business contributed from our marketplace business platform, which was partially offset by the positive revenue impact from a decrease in estimated refunds payable to members. The estimation of refund payable to members is based upon the historical data of referral incentives earned by referring members within their active life cycle. The balance of the payable was RMB396,024 at December 31, 2018, and reflected our strategy to utilize membership packages and referrals as a principal means of gaining customers. In order to stimulate our users' interest in transacting on our platform and attract more members, in 2019, we provided each non-member user with a free three-month experiential period during which time the user had access to the full spectrum of membership benefits. After the three-month experiential period, the user could become our member if he or she met a certain cumulative spending threshold or certain other requirements during the experiential period or if he or she purchased one of our membership packages. The free three-month experiential period enlarged our member base in 2019 by attracting more non-member users to become members. It further encouraged an increasing percentage of members to purchase more merchandise to meet the cumulative spending threshold and enjoy the member exclusive discounts under the membership program. Upon the successful launch of the free three-month experiential period, the amount of revenue earned from referring members, and the commissions paid to them, decreased since late of the second quarter of 2019. Based on this new pattern of activity, and the continuing expansion of the free three-month experiential period, we recognized a change in estimate to reduce the refund payable to members by RMB379,370 during 2019. The adjustment was recorded as an increase in revenue, reflecting the original establishment of the refund payable as a reduction in revenue (as a form of variable revenue consideration). The balance of the refund payable as of December 31, 2019 was RMB26,883, and reflected our best estimate of its liability based on historical patterns of earnings and redemptions, after the introduction of the above mentioned promotion activities.
- *Revenue from membership programs.* Membership program revenue decreased by 50.0% from RMB1,552.4 million in 2018 to RMB776.8 million in 2019, primarily due to the refinement of our membership enrollment system to provide users with alternative paths to achieve membership status in order to facilitate further business expansion. Alternative paths to achieve membership status include purchasing gift packages or meeting certain other requirements.
- *Revenue from marketplace business.* Revenue from the marketplace business was RMB311.9 million in 2019 compared with nil in 2018, as we continued to increase our investments in attracting more popular brands and merchants onto our platform after launching the marketplace business in the first quarter of 2019 and our marketplace business continued to generate higher commission rates.
- *Other revenues.* Other revenues decreased by 53.0% from RMB74.4 million in 2018 to RMB34.9 million in 2019.

Operating cost and expenses

Our total operating cost and expenses decreased by 8.5% from RMB13,114.6 million in 2018 to RMB11,995.5 million in 2019. This decrease was due to decreases in cost of revenues and fulfillment expenses, which was partially offset by increases in sales and marketing expenses, technology and content expenses and general and administrative expenses.

- *Cost of revenues.* Our cost of revenues decreased by 13.6% from RMB10,706.6 million, representing 82.3% of our total revenues, in 2018 to RMB9,249.5 million, representing 79.2% of our total revenues, in 2019, which was mainly attributable to the decline in our sales of merchandise, which recognize revenues on a gross basis.
- *Fulfillment expenses.* Our fulfillment expenses decreased by 16.9% from RMB1,162.1 million, representing 8.9% of our total revenues, in 2018 to RMB965.9 million, representing 8.3% of our total revenues, in 2019. This decrease was primarily attributable to a decrease in our warehousing and logistics expenses from RMB866.6 million in 2018 to RMB585.2 million in 2019, resulting from lower merchandise sales and improved logistics efficiency, which was partially offset by an increase in personnel costs from RMB123.1 million in 2018 to RMB187.4 million in 2019, as the headcount of our fulfillment personnel increased from 392 as of December 31, 2018 to an average of 456 during the year ended December 31, 2019.
- *Sales and marketing expenses.* Our sales and marketing expenses increased by 24.3% from RMB955.1 million, representing 7.3% of our total revenues, in 2018 to RMB1,187.5 million, representing 10.2% of our total revenues, in 2019. The increase in sales and marketing expenses was primarily attributable to (i) an increase in member management fees from RMB834.6 million in 2018 to RMB876.8 million in 2019 due to an 86.5% increase in the cumulative number of members on our platform from 7.4 million as of December 31, 2018 to 13.8 million as of December 31, 2019, (ii) an increase in personnel costs from RMB34.8 million in 2018 to RMB51.3 million in 2019, as the headcount of our sales and marketing personnel increased from 105 as of December 31, 2018 to 205 as of December 31, 2019, and (iii) an increase in business promotion expenses from RMB44.9 million in 2018 to RMB189.8 million in 2019 due to more brand and business promotion activities in 2019, especially increased business development activities for our marketplace business platform to attract more popular brands and merchants, and (iv) an increase in share-based compensation expenses from RMB3.2 million in 2018 to RMB29.9 million in 2019 due to new grant share-based awards.
- *Technology and content expenses.* Our technology and content expenses increased by 119.4% from RMB143.6 million, representing 1.1% of our total revenues, in 2018 to RMB315.2 million, representing 2.7% of our total revenues, in 2019, primarily due to (i) an increase in personnel costs from RMB86.6 million in 2018 to RMB186.9 million in 2019, as the number of our research and development employees increased from 409 as of December 31, 2018 to 523 as of December 31, 2019, and (ii) an increase in costs of servers from RMB41.6 million in 2018 to RMB103.3 million in 2019, which was due to the growth in user traffic.
- *General and administrative expenses.* Our general and administrative expenses increased by 88.5% from RMB147.2 million, representing 1.1% of our total revenues, in 2018 to RMB277.5 million, representing 2.4% of our total revenues, in 2019. The increase was primarily attributable to (i) an increase in personnel costs from RMB54.9 million in 2018 to RMB127.6 million in 2019, resulting from an increase in headcount of general and administrative employees from 107 as of December 31, 2018 to 213 as of December 31, 2019 and an increased amount of bonuses paid, and (ii) an increase in share-based compensation expenses from RMB41.9 million in 2018 to RMB79.0 million in 2019 due to new grant share-based awards.

Loss from operations

Our loss from operations was RMB254.8 million in 2019, compared to RMB92.4 million in 2018. The increase in our loss from operations was primarily due to increases in share-based compensation expenses, personnel costs and market promotion fees.

Financial income, net

Our financial income, net was RMB121.4 million in 2019, compared to RMB46.1 million in 2018. This increase was primarily due to an increase in the readily determinable fair value of our investment in the equity securities of a Hong Kong listed Company, GXG (1817.HK).

Foreign exchange gain/(loss), net

We recorded foreign exchange loss, net of RMB12.4 million in 2019, compared to foreign exchange loss, net of RMB0.7 million in 2018 as a result of the loss for the exchange settlement from the third-party payment settlement platform, which was partially offset by the appreciation of the U.S. dollar against the Renminbi.

Income tax benefit/(expense)

We recorded income tax benefit of RMB16.7 million in 2019, compared to income tax expense of RMB12.3 million in 2018, primarily because (i) the tax rate of Jishang Preferred changed from 15% in 2018 to 25% in 2019, which resulted in an increase of RMB35.3 million of deferred tax assets on the revaluation in 2019 and (ii) an increase in deduction for research and development expenses, which was RMB89.0 million in 2019 compared to RMB77.6 million in 2018, as the number of our research and development employees increased, partially offset by (i) an increase in our share-based compensation expense from RMB54.3 million in 2018 to RMB128.2 million in 2019 and (ii) an increase in valuation allowance from RMB10.0 million in 2018 to RMB65.2 million in 2019, because we will not be able to utilize tax loss carry forwards generated by certain unprofitable subsidiaries.

Net loss

As a result of the foregoing, we recorded net loss of RMB123.8 million in 2019, compared to RMB56.3 million in 2018.

Critical Accounting Policies

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 financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the 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 our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue recognition

We adopted ASC Topic 606, "Revenue from Contracts with Customers," for all periods presented. Consistent with the criteria of Topic 606, we recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to receive in exchange for those goods or services.

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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 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. 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 is recorded net of value-added tax.

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

Sales of merchandise

We primarily sell merchandise through its Yunji Apps. We present the revenue generated from its sales of merchandise on a gross basis as we have control of the goods and has the ability to direct the use of goods to obtain substantially all the benefits. In making this determination, We also assess 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. The cash collected from the sales of merchandise is initially recorded in Deferred revenue 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 title of the merchandise is transferred to the customer. The revenue is recorded net of value-added tax, discounts, coupons, incentives and return allowances. Return allowances are estimated based on historical experiences and updated at the end of each reporting period.

Membership program

Before January 2020, we earn membership fees from our members, who pay a fixed fee in exchange for (1) a merchandise gift package, (2) the right to receive member exclusive discounts for merchandise sold on the Yunji app, (3) access rights to the member-exclusive features on the Yunji app, (4) the right to receive units of Yun-coin upon a successful new member referral ("Referral Yun-coins"), (5) member exclusive training, and (6) units of Yun-coins ("New Member Yun-coins"). Each of these items represents a separate performance obligation. Yun-coin can be used as coupons for the member's future purchases on our apps and therefore reflect material rights. In order to promote our membership program, we, at our discretion, allow our users to join the membership program by purchasing any merchandise of equivalent value of the membership fee through our Yunji app within a defined period as an alternative way of paying the upfront fixed membership fee, or allow individuals that meet certain requirements to become members without paying membership fee. When users become members in this manner, they are not entitled to the merchandise gift package and member exclusive training. We allocate the transaction price to each performance obligation, after taking into consideration expected refunds payable to members, based on their relative standalone selling price. When the standalone selling price of a performance obligation is not directly observable, it is estimated by us by using an expected cost plus a margin approach.

For the merchandise gift package, revenue is recognized when the receipt of the gift package is confirmed by the members. For the right to receive Referral Yun-coins, revenue is recognized when Referral Yun-coin is used and redeemed, or upon expiration if not redeemed. For New Member Yun-coins, revenue is recognized when the New Member Yun-coin is used and redeemed, or upon expiration if not redeemed. The allocated amounts of the transaction price to the right to receive Referral Yun-coin and New Member Yun-coin incorporate estimation of breakages based upon historical data, and are deferred on the balance sheet upon the collection of the upfront membership fees. For member exclusive training, revenue is recognized when the training courses are delivered over the service period by the third-party vendors engaged by us. For the remaining performance obligations, revenue is recognized over the period of the active life cycle of our members on a straight-line basis. The active life cycle of our members is estimated based on historical behavior of these members, which is approximately one year.

In addition, when members subsequently purchase merchandise, the members initially pay for their purchases at non-member regular prices, and then are issued refunds equal to the member-exclusive discounts from us as a credit upon the members confirming receipt of the merchandise. We record such anticipated refunds as a reduction of revenue and discounts payables to the members.

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Starting from January 2020, we have allowed any user to become our member free of charge for one year by simply registering for an account on *Yunji* App. When users become members in this manner, they are still entitled to enjoy the right to receive member exclusive discounts for merchandise sold on the *Yunji* App.

Marketplace

In 2019, we launched our marketplace business model, under which we operate our e-commerce platform, *Yunji* app, as a marketplace for third-party merchants to sell their merchandise to the users of *Yunji* app. When the transactions are completed on the *Yunji* app, we charge merchants commissions at their respective agreed percentage of the amount of merchandise sold by merchants. We act as an agent in these transactions and do not control the underlying merchandise provided by merchants before they are transferred to users, as we are not responsible for fulfilling the promise to provide the merchandise to users and have no inventory risk before the merchandise are transferred to the users or after the control is transferred to the users. In addition, we have no discretion in establishing prices of the merchandise provided by merchants. Revenues are recognized on a net basis to the extent of the commission we earn at the point of users' acceptance of merchandise.

Remaining performance obligations

The remaining performance obligations associated with our sale of merchandise represent the cash collected upfront from the customers for their purchase of merchandise on our apps, but the underlying merchandise has not yet been received by the customers, which is included in the presentation of deferred revenue and are expected to be recognized as revenue when the receipt of merchandise is confirmed by the customers.

Revenue allocated to remaining performance obligations of our membership program represents that portion of the overall transaction price that has been received (or for which we have an unconditional right to payment) allocated to obligations under the membership program that we have not yet fulfilled, which is included in the presentation of deferred revenue and are expected to be recognized as revenue within 12 months.

The remaining performance obligations associated with our marketplace revenue represents the portion of commission fee included in the payment collected from the users for their purchase of merchandise on the *Yunji* app on behalf of the merchants, but the underlying merchandise has not yet been received by the users, which is included in the presentation of deferred revenue and are expected to be recognized as revenue when the transactions are completed.

Other goods and services

We offer products such as air tickets, tourist attractions tickets, cruise, group tour, hotel reservation and car insurance through our *Yunji* App. We present the revenue generated from such sales on a net basis as we do not have control of the goods or services or have the ability to direct the use of the goods or services and obtain substantially all of their benefits. Revenue is recognized when we have fulfilled its selling performance obligations on behalf of the principal in the transaction, which is either when the products are accepted by the customer, or once the order of the products become non-cancellable on our *Yunji* App, depending on the terms of the particular agreement.

We also offer loans to qualified customers, including the merchants, and changes an interest based on the principal through factoring arrangements. We extend loans to merchants for their expected orders in addition to the loans to the same merchants who factored their accounts receivable generated from their transactions completed on *Yunji* App with recourse. We also extend loans to unrelated customers who factored their account receivable derived from their own business with recourse. We record factoring receivables, which is included in accounts receivable, when the cash is advanced to the customers. The interests are recognized over the term of loans, normally within one year. From cash flow perspective, when we have legal rights to net settle the factoring receivables from merchants with its payable to merchants, we settle the factoring receivables with the payables to the same merchant respectively, provided by the legal rights as per agreement between the two parties.

Refund payable to members

After joining our membership program, members are able to make referrals to other users through their social networks. We provide incentives to those referring members by paying a cash refund upon a successful merchandise referral.

Since customers are only able to receive referral incentives after they become members. When the member become a customer of us by either paying the membership fees or making purchase of merchandise sold on our *Yunji* app after they register as a member, the referral incentives related to merchandise referral are considered payments to customers (and are not payment for a distinct good or service) and accounted for as a refund payable to members. Such refunds are estimated at the time the membership fee is received or at the time that the members make merchandise purchases, and recorded as refund payable to members, and reduce the transaction price (that we expect to be entitled to keep) for the membership fee revenue recognition calculation described above accordingly. Any amount of referral incentives expected to be paid in excess of the initial membership fee received is recorded as refund payable to members (and reduces merchandise revenue subsequently generated from those members) at the time they make subsequent merchandise purchases, up to the amount of the expected future referral incentives.

The estimation of refunds payable to members involves the assumption of the members' active life cycle and the expected number of members who will earn referral incentives, based upon the historical data of referral incentives earned by referring members within their active life cycle. Once the referral incentives are earned by the referring members, the amounts are transferred to the members' individual *Yunji* App accounts and reclassified from refund payable to members to incentive payables to members.

Users Incentive Programs

We grant certain units of Yun-coin and other coupons (collectively referred to as coupons), from time to time, to our customers at our discretion in different situations. Yun-coins are not redeemable for cash and can be used as a coupon for the customer's future purchase on our Yunji app. The value of one unit of Yun-coin is equivalent to one RMB. The coupons granted can be categorized into (i) coupons granted concurrent with a revenue transaction and (ii) coupons granted not concurrent with a revenue transaction. When the coupon is granted concurrent with a revenue transaction, we determine 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, it is recognized as a reduction of revenue when they are applied in the future sales. When the coupon is not granted concurrent with a revenue transaction, we assess whether the coupons were granted in exchange for a distinct service at fair value. When the coupons are granted in exchange for a distinct service at fair value, they are recorded as expense upon grant. In this case, the person granted coupons in return for their service activities does not need to be a member. When the coupons are not granted in exchange for a distinct service, they can only be applied to the future purchase of certain specified merchandise. These coupons are not accounted for when they are granted and are recognized as a reduction of revenue when they are applied in future sales.

Starting from 2019, in order to promote our marketplace business, from time to time, we at our own discretion issues coupons in various forms to users without any concurrent transactions in place or any substantive action needed from the recipient. These coupons can be used in purchase of goods in a broad range of merchants as an immediate discount of their next purchase, some of which can only be used when the purchase amount exceeds pre-defined threshold. We settle with the merchants in cash for the coupons used by the users. As the users are required to make purchases of the merchants' merchandises to redeem the coupons, we recognize the amounts of redeemed coupons as sales and marketing expenses when the purchases are made.

Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. Write-downs of RMB2.5 million, RMB3.6 million and RMB4.6 million are recorded in cost of revenues in the consolidated statements of comprehensive loss for the years ended December 31, 2018, 2019 and 2020, respectively.

Share-based Compensation

On December 19, 2017, we adopted the 2017 Share Incentive Plan, or the 2017 Plan, which allows the compensation committee to grant options and restricted share units to our directors and employees, and other personnel to acquire our ordinary shares at an exercise price as determined by the compensation committee at the time of grant. The 2017 Plan was subsequently replaced by the 2019 Plan in March 2019, and is no longer effective. The awards granted and outstanding under the 2017 Plan survive the termination of the 2017 Plan and remain effective and binding under the 2019 Plan. See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—2019 Share Incentive Plan.” Under the 2019 Plan, 227,401,861 ordinary shares were authorized and reserved for issuance.

Since adoption of the 2017 Plan, which was subsequently replaced by the 2019 Plan in March 2019, we granted options and restricted share units to our employees. All options and restricted share units granted have a contractual term of six years from the grant date, and the vest over a period of four years of continuous service, half (1/2) of which vest upon the second anniversary of the stated vesting commencement date and one-fourth (1/4) of the remaining will vest upon the third and fourth anniversaries of the stated vesting commencement date. Under the 2017 Plan and the 2019 Plan, which replaced the 2017 plan in its entirety in March 2019, options are exercisable subject to the grantee’s continuous service.

We accounted for the share based compensation costs on a straight-line bases over the requisite service period for the award based on the fair value on their respectively grant date.

On December 19, 2017, June 30, 2018, November 28, 2018, and January 31, 2019, we granted 73,225,200, 12,021,500, 5,540,000 and 4,968,000 stock options to our directors and employees, respectively. In addition, on December 19, 2017, November 28, 2018, and January 31, 2019, we granted 5,000,000, 19,800,000 and 14,925,000 restricted share units to our directors and employees, respectively.

On May 3, 2019, we granted 720,000 stock options to certain independent directors. In addition, on May 3, 2019, we were authorized by our board of directors to grant stock options and restricted share units to non-employees under the 2019 Plan, and granted options to purchase an aggregate of 10,409,050 Class A ordinary shares and 3,332,040 restricted share units to non-employees by batches during the year ended December 31, 2019.

On January 1 2020, we granted 356,210 and 49,964,000 restricted share units to two external consultants and our employees, respectively. In addition, on July 1, 2020, we granted 13,890,000 restricted share units to our directors and employees.

(a) Options

The following table sets forth the stock options activity for the years ended December 31, 2018, 2019 and 2020:

	Number of shares	Weighted- average exercise price US\$	Weighted average remaining contractual term	Aggregate intrinsic value 000*US\$
Outstanding as of December 31, 2018	87,112,400	0.12	5.09	60,399
Granted	16,097,050	0.61		
Forfeited	(7,954,980)	0.31		
Exercised	(1,407,920)	0.09		
Outstanding as of December 31, 2019	93,846,550	0.19	3.77	30,442
Granted	—	—		
Forfeited	(16,014,140)	0.11		
Exercised	(9,151,290)	0.10		
Expired	(115,200)	0.14		
Outstanding as of December 31, 2020	68,565,920	0.22	2.65	2,826
Vested and expected to vest as of December 31, 2020	68,565,920			
Exercisable as of December 31, 2020	53,535,110	—	—	—

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The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the underlying stock at each reporting date (December 31, 2019: US\$0.46, December 31, 2020: US\$0.19).

We use the Binominal option pricing model to estimate the fair value of stock options. The assumptions used to value our options grants were as follow:

	2019	2020
Exercise price (US\$)	0.1~0.7	N/A
Exercise multiple	2.2~2.8	N/A
Risk-free interest rate	1.68%~2.47%	N/A
Expected term (in years)	6	N/A
Expected dividend yield	—	N/A
Expected volatility	39.91%~41.29%	N/A
Expected forfeiture rate (post-vesting)	0%/5%	N/A
Fair value of the underlying shares on the date of options grants (US\$)	0.46~1.42	N/A
Fair value of share option (US\$)	0.11~1.32	N/A

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. We have never declared or paid any cash dividends on its capital stock, and we do not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

Share-based compensation expense is recorded on a straight-line basis over the requisite service period, which is generally four years from the date of grant. We recognized share-based compensation expenses of RMB48.3 million, RMB66.2 million and RMB52.9 million for share options granted under the 2017 Plan and the 2019 Plan, which replaced the 2017 Plan in its entirety in March 2019, in the consolidated statements of comprehensive loss for the years ended 2018, 2019 and 2020, respectively.

As of December 31, 2019 and 2020, there was RMB137.5 million and RMB40.2 million, respectively, in total unrecognized compensation expense, related to unvested share options, which is expected to be recognized over a weighted average period of 1.97 and 0.8 years, respectively. The unrecognized compensation expense may be adjusted for future changes in actual forfeitures.

(b) Restricted share units

A summary of activities of the service-based restricted share units for the years ended December 31, 2018, 2019 and 2020 is presented below:

	Number of RSUs	Weighted-Average Grant-Date Fair Value US\$
Unvested at December 31, 2018	24,800,000	0.74
Granted	18,257,040	0.68
Vested	(3,036,290)	
Forfeited	(3,185,900)	
Unvested at December 31, 2019	36,834,850	0.76
Granted	64,210,210	0.43
Vested	(954,960)	
Forfeited	(51,629,000)	
Expired	(500,000)	
Unvested at December 31, 2020	47,961,100	0.63

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The fair value of each restricted share units granted with service conditions is estimated based on the fair market value of the underlying our ordinary shares on the date of grant.

As of December 31, 2019 and 2020, 3,036,290 restricted share units and 954,960 restricted share units were vested. For the years ended December 31, 2018, 2019 and 2020, our total share-based compensation expenses recognized for the restricted share units granted were RMB6.0 million, RMB62.0 million and RMB45.5million, respectively.

As of December 31, 2019 and 2020, there was RMB138.4 million and RMB112.4 million in total unrecognized compensation expense, related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.60 and 2.51 years, respectively.

Fair Value Measurements

As of December 31, 2019 and 2020, information about inputs into the fair value measurement of our assets and liabilities that are measured or disclosed at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

Description	Fair value as of December 31, 2019 RMB	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
Assets:				
Short-term investments				
Time deposits	593,954	—	593,954	—
Wealth management products	180,782	—	180,782	—
Long-term investments				
Equity securities with readily determinable fair value	158,072	158,072	—	—
Total assets	932,808	158,072	774,736	—

Description	Fair value as of December 31, 2020 RMB	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
Assets:				
Short-term investments				
Time deposits	134,146	—	134,146	—
Long-term investments				
Equity securities with readily determinable fair value	94,552	94,552	—	—
Total assets	228,698	94,552	134,146	—

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When available, we use quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, we will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates. The following is a description of the valuation techniques that we use to measure the fair value of assets that we report in our consolidated balance sheets at fair value on a recurring basis:

Short-term investments. Short-term investment consists of wealth management products and time deposits, which are valued by us on a recurring basis. We value our short-term wealth management products investments held in certain banks using model-derived valuations based upon discounted cash flow, in which significant inputs, mainly including expected return, are observable or can be derived principally from, or corroborated by, observable market data, and accordingly, we classify the valuation techniques that use these inputs as Level 2. The expected return of the financial products were determined based on the prevailing interest rates in the market.

Long-term investments. Equity securities with readily determinable fair values are measured and recorded at fair value on a recurring basis with changes in fair value. We value these equity securities at its quoted prices in stock market, and accordingly we classify the valuation techniques that use these inputs as Level 1.

Recently Issued Accounting Pronouncements

A list of recently issued accounting pronouncements that are relevant to us is included in note 2 of our consolidated financial statements included elsewhere in this annual report.

Inflation

To date, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2018, 2019 and 2020 were increases of 1.9%, 4.5% and 0.2%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

B. Liquidity and Capital Resources

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

	For the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flow Data:				
Net cash generated from/(used in) operating activities	883,037	(1,116,816)	(261,514)	(40,075)
Net cash generated from/(used in) investing activities	(458,047)	(115,483)	551,015	84,443
Net cash generated from/(used in) financing activities	747,921	623,406	(13,876)	(2,127)
Effect of exchange rate changes on cash and cash equivalents	34,594	11,390	(53,624)	(8,217)
Net increase/(decrease) in cash, cash equivalents and restricted cash	1,207,505	(597,503)	222,001	34,024
Cash, cash equivalents and restricted cash at beginning of the year	357,741	1,565,246	967,743	148,313
Cash, cash equivalents and restricted cash at end of the year	1,565,246	967,743	1,189,744	182,337

To date, our primary sources of liquidity have been issuances of equity securities in our initial public offering and historical private placements. As of December 31, 2020, our cash, cash equivalents and restricted cash were RMB1,189.7 million (US\$182.3 million). Our cash and cash equivalents consist of currency on hand, deposits held by financial institutions that can be added to or withdrawn without limitation, and short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of three months or less. Cash held in accounts with third-party online payment platforms are recorded as other receivables.

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Our accounts payable include merchandise purchase payables, warehouse and logistics fees payables and payable to merchants representing the unpaid balances to the merchants of cash collected by us on behalf of the merchants for products sold on our platform when we are viewed as the agent in the sales arrangement. As of December 31, 2018, 2019 and 2020, our accounts payable amounted to RMB1,432.3 million, RMB742.0 million and RMB501.5 million (US\$76.9 million), respectively. These changes were primarily contributed by the changes in merchandise purchase payables, which decreased from RMB1,247.2 million as of December 31, 2018 to RMB548.4 million as of December 31, 2019 and further to RMB292.5 million (US\$44.8 million) as of December 31, 2020. The changes in merchandise purchase payables reflected the continual shift of portions of merchandise sales to our marketplace business platform that launched in the first quarter of 2019 from 2018 to 2019 and from 2019 to 2020. Our merchandise purchase payable turnover days were 31.0 days in 2018, 34.9 days in 2019 and 38.4 days in 2020. Merchandise purchase payable turnover days for a given period equal to average merchandise purchase payable at the beginning and the end of the period divided by cost of revenues during the period and then multiplied by the number of days during the period.

As of December 31, 2018, 2019 and 2020, our net inventories amounted to RMB675.5 million, RMB428.3 million and RMB135.2 million (US \$20.7 million), respectively. These decreases were primarily due to portions of merchandise sales continually shifting to our marketplace business platform that launched in the first quarter of 2019, under which substantially all of the third-party merchants handle the procurement, storage and management of their own inventory. Our inventory turnover days were 17.0 days in 2018, 21.5 days in 2019 and 25.7 days in 2020. Inventory turnover days for a given period equal to average inventory balances at the beginning and the end of the period divided by cost of revenues during the period and then multiplied by the number of days during the period. Our inventory balances will fluctuate over time due to a number of factors, including changes in our product mix. Our inventory balances typically increase when we prepare for special promotion events, such as the special promotional campaign on our founding anniversary May 16 and the online shopping festival on November 11.

We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months from the date of this annual report. After this report, we may decide to enhance our liquidity position or increase our cash reserve for future investments through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

As of December 31, 2020, we had RMB1,189.7 million (US\$182.3 million) in cash, cash equivalents and restricted cash, of which approximately 32.7% were held in Renminbi, 67.1% in U.S. dollars, and the remainder in other currencies. Although we consolidate the results of our VIEs and their subsidiaries, we only have access to the assets or earnings of our VIEs and their subsidiaries through our contractual arrangements with our VIEs and their shareholders. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities and Their Respective Shareholders.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure.”

A majority of our future revenues are likely to continue to be in the form of Renminbi. Under existing PRC foreign exchange regulations, Renminbi may be converted into foreign exchange for current account items, including profit distributions, interest payments and trade-and service-related foreign exchange transactions.

We expect that substantially all of our future revenues will be denominated in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

Operating activities

Net cash used in operating activities in 2020 was RMB261.5 million (US\$40.1 million), as compared to net loss of RMB151.7 million (US\$23.2 million) in the same period. In 2020, the principal items accounting for the difference between our net cash used in operating activities and our net loss were (i) a decrease in accounts payable of RMB205.8 million (US\$31.5 million), (ii) an increase in accounts receivable of RMB154.4 million (US\$23.7 million), (iii) a decrease in deferred revenue of RMB130.9 million (US\$20.1 million), partially offset by (i) a decrease in inventories of RMB252.0 million (US\$38.6 million) and (ii) a non-cash share-based compensation of RMB98.4 million (US\$15.1 million). The decreases in accounts payable and inventories were primarily due to a portion of merchandise sales shifting to our marketplace business platform that launched in the first quarter of 2019 under which substantially all of the third-party merchants handle the procurement, storage and management of their own inventory. The increase in accounts receivables were primarily due to increased funds extended by us to qualified customers and increased receivables from sales channels on other platforms.

Net cash used in operating activities in 2019 was RMB1,116.8 million, as compared to net loss of RMB123.8 million in the same period. In 2019, the principal items accounting for the difference between our net cash used in operating activities and our net loss were (i) a decrease in accounts payable of RMB674.4 million, (ii) a decrease in deferred revenue of RMB365.1 million and (iii) a non-cash change in the estimate of refund payable to members of RMB379.4 million, partially offset by (i) a decrease in inventories of RMB243.6 million and (ii) an increase in other payable and accrued liabilities of RMB134.0 million. The decreases in accounts payable and inventories were primarily due to a portion of merchandise sales shifting to our recently launched marketplace business platform under which substantially all of the third-party merchants handle the procurement, storage and management of their own inventory. The increase in other payable and accrued liabilities was primarily due to increases in merchants deposits in our marketplace business and salaries and welfare payable. The non-cash change in the estimate of refund payable to members was due to the on-going pattern and changes of the members' referral behavior in that an increasing number of non-member users became members in 2019 due to the introduction of the three-month experiential membership period and that the member can earn referral commission only when the referee is non-member.

Net cash generated from operating activities in 2018 was RMB883.0 million, as compared to net loss of RMB56.3 million in the same period. In 2018, the principal items accounting for the difference between our net cash generated from operating activities and our net loss were (i) an increase in accounts payable of RMB662.2 million, (ii) an increase in incentive payables to members of RMB182.1 million, (iii) an increase in refund payable to members of RMB248.1 million, and (iv) an increase in deferred revenue of RMB223.4 million, partially offset by (i) an increase in inventories of RMB345.3 million, and (ii) an increase in prepaid expenses and other current assets of RMB184.3 million. The increases in accounts payable, incentive payables to members and inventories were primarily due to the growth of our business. The increase in refund payable to members was primarily due to an increase in the number of members referring products and hence becoming eligible to receive refunds. The increase in prepaid expenses and other current assets was primarily due to an increase in prepaid member training costs.

Investing activities

Net cash generated from investing activities in 2020 was RMB551.0 million (US\$84.4 million), primarily due to cash received from maturity of short-term investments of RMB2,492.6 million (US\$382.0 million), partially offset by cash paid for short-term investments of RMB1,774.8 million (US\$272.0 million).

Net cash used in investing activities in 2019 was RMB115.5 million, primarily due to cash paid for short-term investments of RMB4,793.9 million, cash paid for long-term investments of RMB120.9 million and loans provided to third parties of RMB171.9 million, partially offset by cash received from maturity of short-term investments of RMB5,028.8 million.

Net cash used in investing activities in 2018 was RMB458.0 million, primarily due to purchase of short-term investments of RMB11,539.4 million and purchase of property, equipment and software of RMB28.7 million, partially offset by maturity of short-term investments of RMB11,124.6 million.

Financing activities

Net cash used in financing activities in 2020 was RMB13.9 million (US\$2.1 million), primarily due to cash paid for repurchase of common stocks of RMB23.2 million (US\$3.6 million).

Net cash generated from financing activities in 2019 was RMB623.4 million (US\$89.5 million), mainly consisting of the proceeds from the IPO.

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Net cash generated from financing activities in 2018 was RMB747.9 million, mainly consisting of the proceeds from the issuance of preferred shares.

Capital expenditures

Our capital expenditures were RMB28.7 million, RMB28.2 million and RMB84.4 million (US\$12.9 million) in 2018, 2019 and 2020, respectively. We intend to fund our future capital expenditures with our existing cash balance and cash flow from operating activities. We will continue to make capital expenditures to meet the expected growth of our business.

Holding Company Structure

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

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

See “Item 4. Information On the Company—B. Business Overview—Technology” and “Item 4. Information On the Company—B. Business Overview—Intellectual Property.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2020 that are reasonably likely to have a material adverse effect on our 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. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholder’s equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. 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 product development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2020:

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease	16,223	7,316	8,846	61	—

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Our operating lease obligations relate to our leases of offices and operation space. Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2020.

G. Safe Harbor

See “Forward-Looking Statements” on page 3 of this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Shanglue Xiao	42	Chairman of the Board of Directors and Chief Executive Officer
Wei Ye	37	Executive President
Wei Ying	54	Director
Li-Lan Cheng	56	Independent Director
Gao Wang	56	Independent Director
Suqin Xi	65	Independent Director
Huan Hao	39	Chief Technology Officer
Chengqi Zhang	37	Vice President of Finance

Mr. Shanglue Xiao is our founder, and has served as the chairman of our board of directors and chief executive officer since our inception. Xiao is a serial entrepreneur with more than 15 years of experience in the e-commerce industry. Prior to founding our company, Mr. Xiao founded the Xiaoye Perfume, an online cosmetics retailer in China, in 2003. Mr. Xiao received his EMBA from China Europe International Business School.

Mr. Wei Ye has served as our executive president since April 2021. Prior to joining us, Mr. Ye served as executive president of Taiyuan Lionhead Cement Co.,Ltd. (SSE: 600539), from September 2020 to April 2021. Mr. Ye served as chief executive officer of Haiercash Co., Ltd. a national consumer finance company in China, from June 2019 to September 2020. Mr. Ye was chief operating officer of Weidai Ltd. (NYSE:WEI), from May 2016 to June 2019. Prior to that, he was a general manager of Ping An Financial Technology Co., Ltd., a subsidiary of Ping An Insurance (Group) Company of China, Ltd. (SSE: 601318), from March 2011 to May 2016. Mr. Ye was a marketing director of Alisoft Co., Ltd., a subsidiary of Alibaba Group Holding Limited (NYSE:BABA), from June 2009 to December 2010 and a deputy business director of Tencent Holdings Limited, an investment corporation listed on the Hong Kong Stock Exchange (HKSE: 0700), from July 2007 to May 2009. Mr. Ye received his bachelor’s degree in software engineering from Zhejiang University in 2007.

Mr. Wei Ying has served as our director since February 2018. Mr. Ying is currently a managing director of CDH Investments. Prior to joining CDH Investments, Mr. Ying was a vice president of China Water Affairs Group Limited from February 2007 to March 2009 and president and executive director of China Plant Development Holdings Limited from July 2008 to July 2009. Prior to this, Mr. Ying served as an executive director of China Resources Textiles (Holding) Co., Ltd. Mr. Ying currently serves as non-executive director for several Hong Kong listed companies, such as CHTC Fong’s International Company Limited (0641.HK), New Focus Auto Tech Holdings Ltd (0360.HK), Fountain Set (Holdings) Limited (0420.HK), China Health Group Limited (0673.HK) and Zhongsheng Group Holdings Limited (0881.HK). Mr. Ying has also served as a director of Giant Interactive Group Inc. since May 2016. Mr. Ying received his bachelor’s degree in accounting from Zhejiang Gongshang University and an MBA from University of San Francisco.

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Mr. Li-Lan Cheng has served as our director since May 2019. Mr. Cheng has served as the acting chief financial officer of Leju Holdings Limited (NYSE: LEJU) since June 2017. Mr. Cheng also served as Leju's executive director from March 2014 to March 2017. Mr. Cheng has served as the chief operating officer of E-House (China) Holdings Limited, a real estate services company in China, since April 2012. He was E-House's chief financial officer from November 2006 to April 2012. Prior to joining E-House, Mr. Cheng served as the chief financial officer of SouFun Holdings Limited, a real estate internet company in China, from 2005 to 2006. From 2002 to 2004, Mr. Cheng served as an executive director and the chief financial officer of SOHO China Limited, a real estate developer in Beijing. Mr. Cheng was an assistant director and the head of the Asian transportation sector investment banking group of ABN AMRO Asia from 1997 to 2002. Mr. Cheng currently serves as an independent director of 51job, Inc. (NASDAQ: JOBS), a human resource service provider, an independent director of LAIX Inc. (NYSE: LAIX), an artificial intelligence company for English language training, and an executive director of E-House (China) Enterprise Holdings Limited (2048.HK), a real estate transaction service provider in China. Mr. Cheng received a bachelor's degree in Economics from Swarthmore College and a Ph.D. degree in Economics from the Massachusetts Institute of Technology. Mr. Cheng is a chartered financial analyst (CFA).

Mr. Gao Wang has served as our director since May 2019. Mr. Wang has been a professor of marketing at China Europe International Business School (CEIBS) since 2009. Prior to joining CEIBS, Mr. Wang was an associate professor of marketing at the School of Economics and Management, Tsinghua University from 2002 to 2008. Before joining the faculty of Tsinghua University, he worked as a manager of the Strategic Analytics Group at the Minute Maid Company, a division of Coca Cola in Houston, for two years with responsibility for sales planning/evaluation and marketing plan. Prior to that, Mr. Wang was a senior consultant at Information Resources Inc. (IRI) in Chicago from 1998 to 2000 with responsibility for marketing model development. Mr. Wang currently serves as the supervisor of Beijing Zhuoyuezhaye Consulting Company Limited and as non-executive director of the following companies: GOME Electrical Appliances Holding Limited, Canature Environmental Products Co., Ltd and Sineng Electric Company Limited. Mr. Wang received his bachelor's degree in demography from Renmin University of China and his master's and Ph.D. degrees in sociology from Yale University.

Mr. Suqin Xi has served as our director since January 2020. Mr. Xi has been a consultant of Puhua Capital since October 2019. Prior to joining Puhua Capital, Mr. Xi served as a counsel of Hangzhou Municipal Market Supervision Bureau from 2014 to 2016. From 2009 to 2014, Mr. Xi was the director of Hangzhou Municipal Financial Services Office, where he was responsible for developing and managing local financial services. Prior to that, Mr. Xi served as the deputy director of Hangzhou Administration for Industry and Commerce, from 1998 to 2009, where he was in charge of company registration, trademark advertising supervision, e-government and policy related affairs. Mr. Xi received his bachelor's degree in history from Hangzhou University in 1982.

Mr. Huan Hao has served as our chief technology officer since our inception and served as our director from February 2018 to December 2020. Mr. Hao has also been in charge of our member community management since April 2020. Mr. Hao has extensive knowledge of internet companies and the technology industry. Mr. Hao served as a senior manager in Tencent (700.HK), a provider of comprehensive internet services serving the largest online community in China and listed on Hong Kong Stock Exchange, from December 2011 to May 2015. Mr. Hao worked as a consultant in Oracle from April 2009 to November 2011. Mr. Hao received his bachelor's degree from Nanchang University.

Mr. Chengqi Zhang has served as our vice president of finance since November 2020. Mr. Zhang first joined Yunji in November 2019. Prior to joining the Company, Mr. Zhang had been an audit director at Deloitte since 2007. Mr. Zhang is a member of the American Institute of Certified Public Accountants (AICPA). Mr. Zhang received a Bachelor's degree from Shanghai University of Finance And Economics.

B. Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2020, we paid an aggregate of RMB8.2 million (US\$1.3 million) in cash to our executive officers, and we did not pay any compensation to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries and our VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

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, for certain acts of the executive officer, such as continued failure to satisfactorily perform, willful misconduct or gross negligence in the performance of agreed duties, conviction or entry of a guilty or nolo contendere plea of any felony or any misdemeanor involving moral turpitude, or dishonest act that results in material to our detriment or material of the employment agreement. We may also terminate an executive officer's employment without cause upon 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as may be agreed between the executive officer and us. The executive officer may resign at any time with a 60-day 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) solicit from any customer doing business with us during the effective term of the employment agreement business of the same or of a similar nature to our business; (ii) solicit from any of our known potential customer business of the same or of a similar nature to that which has been the subject of our known written or oral bid, offer or proposal, or of substantial preparation with a view to making such a bid, proposal or offer; (iii) solicit the employment or services of, or hire or engage, any person who is known to be employed or engaged by us; or (iv) otherwise interfere with our business or accounts, including, but not limited to, with respect to any relationship or agreement between any vendor or supplier and us.

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.

2019 Share Incentive Plan

In December 2017, our shareholders and board of directors approved the 2017 Share Incentive Plan, which we refer to as the 2017 Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. In March 2019, we adopted a 2019 Share Incentive Plan, or the 2019 Plan, which replaced the 2017 Plan in its entirety, and the 2017 Plan is no longer effective. The awards granted and outstanding under the 2017 Plan survive the termination of the 2017 Plan and remain effective and binding under the 2019 Plan. The maximum aggregate number of ordinary shares that may be issued under 2019 Plan is initially 227,401,861 ordinary shares, which shall be increased by a number equal to 1% of the then total issued and outstanding ordinary shares on an as-converted and fully diluted basis, on each of the first, second, third, fourth and fifth anniversary of the date of effectiveness of the 2019 Plan. As of February 28, 2021, options to purchase a total of 68,119,430 Class A ordinary shares and 100,974,600 restricted share units were outstanding under the 2019 Plan.

The following paragraphs summarize the principal terms of the 2019 Plan.

Type of Awards. The 2019 Plan permits the awards of options, restricted share units, restricted shares, share appreciation rights, dividend equivalents and share payments.

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Plan Administration. Our board of directors or a committee appointed by the board of directors will administer the 2019 Plan. The plan administrator will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each grant.

Award Agreement. Awards granted under the 2019 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that 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 directors, employees, consultants and members.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of effectiveness of the 2019 Plan.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 2019 Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the 2019 Plan. Unless terminated earlier, the 2019 Plan has a term of ten years from the date of effectiveness of the 2019 Plan. Our board of directors has the authority to terminate, amend, suspend or modify the 2019 Plan in accordance with our articles of association. However, without the prior written consent of the participant, no such action may adversely affect in any material way any award previously granted pursuant to the 2019 Plan.

The following table summarizes, as of February 28, 2021, the number of ordinary shares underlying outstanding options and restricted share units that we granted to our current directors and executive officers.

Name	Ordinary Shares Underlying Options and Restricted Share Units	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Shanglue Xiao	20,000,000	0.0925	December 19, 2017	December 18, 2023
	15,000,000 ⁽¹⁾	—	November 28, 2018	November 27, 2024
Wei Ye	—	—	—	—
Wei Ying	—	—	—	—
Li-Lan Cheng	*	0.1	May 3, 2019	May 2, 2025
Gao Wang	*	0.1	May 3, 2019	May 2, 2025
Suqin Xi	* ⁽¹⁾	—	January 1, 2020	December 31, 2025
Huan Hao	*	0.0925	December 19, 2017	December 18, 2023
			November 28, 2018,	November 27, 2024,
			January 1, 2020 and	December 31, 2025 and
	* ⁽¹⁾	—	February 1, 2021	January 31, 2026
Chengqi Zhang			January 1, 2020,	December 31, 2025,
			July 1, 2020 and	June 30, 2025 and
	* ⁽¹⁾	—	February 1, 2021	January 31, 2026
All directors and executive officers as a group	42,790,000			

Note:

* All awards granted to such director or officer were less than 1% of our total ordinary shares on an as-converted basis outstanding as of the date of this annual report.

(1) Represents restricted share units.

As of February 28, 2021, our employees, other than our directors and executive officers held options to purchase 15,735,430 Class A ordinary shares, with exercise prices ranging from US\$0.0925 per share to US\$0.5 per share and 75,923,750 restricted share units.

C. Board Practices

Our board of directors consists of five 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 transaction or proposed contract or transaction with our company is required to declare the nature of his interest at a meeting of our directors. Subject to the Nasdaq Stock Market Rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he shall be counted in the quorum at any meeting of our directors at which any such contract or transaction or proposed contract or transaction is considered. Our directors may exercise all the powers of our company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party.

Committees of the Board of Directors

We have established three committees under the board of directors: 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 Mr. Li-Lan Cheng, Mr. Gao Wang and Mr. Suqin Xi. Mr. Li-Lan Cheng is the chairman of our audit committee. We have determined that Mr. Li-Lan Cheng, Mr. Gao Wang and Mr. Suqin Xi satisfy the "independence" requirements of the Nasdaq Stock Market Rules and Rule 10A-3 under the Exchange Act. We have determined that Mr. Li-Lan Cheng qualifies as an "audit committee financial expert." The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- 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;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- 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 Mr. Li-Lan Cheng, Mr. Gao Wang and Mr. Suqin Xi. Mr. Li-Lan Cheng is the chairman of our compensation committee. We have determined that Mr. Li-Lan Cheng, Mr. Gao Wang and Mr. Suqin Xi satisfy the "independence" requirements of the Nasdaq Stock Market Rules. The compensation committee will assist the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

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

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- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- 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 Mr. Li-Lan Cheng, Mr. Gao Wang and Mr. Suqin Xi. Mr. Li-Lan Cheng is the chairman of our nominating and corporate governance committee. We have determined that Mr. Li-Lan Cheng, Mr. Gao Wang and Mr. Suqin Xi satisfy the "independence" requirements of the Nasdaq Stock Market Rules. 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 is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- 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, 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 consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth Courts have moved toward an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. In certain 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:

- convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;

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- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our directors may be elected by an ordinary resolution of our shareholders. Alternatively, our board of directors may, by the affirmative vote of a simple majority of the directors present and voting at a board meeting appoint any person as a director to fill a casual vacancy on our board or as an addition to the existing board. Our directors are not automatically subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution of our shareholders. In addition, a director will cease to be a director if he (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; (iv) without special leave of absence from our board, is absent from meetings of our board for three consecutive meetings and our board resolves that his office be vacated; or (v) is removed from office pursuant to any other provision of our articles of association.

Our officers are appointed by and serve at the discretion of the board of directors, and may be removed by our board of directors.

D. Employees

As of December 31, 2020, we had a total of 1,036 employees. We had a total of 1,013 and 1,334 employees as of December 31, 2018 and 2019, respectively. The following table gives breakdowns of our employees as of December 31, 2020 by function:

Function	As of December 31, 2020
Procurement	213
Operations, including customer service	263
Technology	333
Sales and Marketing	91
General and Administrative	136
Total	1,036

To focus corporate resources on the more crucial parts of our business model and for better operating efficiency, we enter into arrangements with third-party BPO companies to provide certain ancillary services available on our platform, such as real-time customer service. As of December 31, 2020, 349 of our customer service personnel were outsourced from third-party BPO companies, representing 57.0% of the total customer service personnel.

We outsource provision of member services to third-party service companies and they select, hire, train and compensate service managers at our request. Most of the service managers are our members. Service managers enter into contracts with third-party service companies and are not our employees. As of December 31, 2020, our members were served by more than 80,000 service managers. We currently work with three third-party service companies and enter into agreements with them on an annual basis or for a longer term. These third-party service companies select service managers based on the standards we provide in our agreements. We have the right to supervise the performance of the service managers and may request third-party service companies to replace service managers who do not meet our standards. We pay training fees to third-party service companies based on the number of members managed by these service companies through service managers that provide training and support to our members. We pay member management fees to third-party service companies for their product sales facilitation services. The service companies compensate the service managers based on the length of work hours and other performance criteria.

As required by regulations in China, we participate in various government statutory employee benefit plans, including social insurance funds, namely, medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits, as well as a housing provident fund. We are required under PRC law to contribute 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.

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We enter into standard labor contracts with our employees. We also enter into standard confidentiality and non-compete agreements with all of our employees. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his/her pre-departure salary during the restricted period.

Our success depends on our ability to attract, retain and motivate qualified employees that share our values. We place great emphasis on our corporate culture to ensure that we maintain consistently high standards everywhere we operate. We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. None of our employees are represented by labor unions.

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 February 28, 2021 by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our total outstanding shares.

The calculations in the table below are based on 2,133,318,232 ordinary shares as of February 28, 2021, including (i) 1,183,358,232 Class A ordinary shares (excluding the company's repurchase of 25,472,990 Class A ordinary shares in the form of ADSs held as treasury shares and reserved for future issuance upon the exercising or vesting of awards granted under our share incentive plans); and (ii) 949,960,000 Class B ordinary shares.

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.

	Ordinary Shares Beneficially Owned			% of Total Ordinary Shares	% of Aggregate Voting Power***
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares		
Directors and Executive Officers**:					
Shanglue Xiao ⁽¹⁾	22,500,000	949,960,000	972,460,000	45.1	88.9
Wei Ye	—	—	—	—	—
Wei Ying ⁽²⁾	—	—	—	—	—
Li-Lan Cheng ⁽³⁾	—	—	—	—	—
Gao Wang ⁽⁴⁾	*	—	*	*	*
Suqin Xi ⁽⁵⁾	*	—	*	*	*
Huan Hao	*	—	*	*	*
Chengqi Zhang	—	—	—	—	—
All Directors and Executive Officers as a Group	37,698,700	949,960,000	987,658,700	45.8	89.1
Principal Shareholders:					
Lanlan Ltd. ⁽⁶⁾	—	949,960,000	949,960,000	44.5	88.9
Entities affiliated with Eastern Bell Venture Capital ⁽⁷⁾	259,154,052	—	259,154,052	12.1	2.4
CPYD Singapore Pte. Ltd. ⁽⁸⁾	215,800,000	—	215,800,000	10.1	2.0
Fasturn Overseas Limited ⁽⁹⁾	147,932,480	—	147,932,480	6.9	1.4
Acceleration S Limited ⁽¹⁰⁾	110,803,324	—	110,803,324	5.2	1.0
Trustbridge Partners IV, LP ⁽¹¹⁾	109,732,490	—	109,732,490	5.1	1.0

* Less than 1% of our total outstanding shares.

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- ** Except as indicated otherwise below, the business address of our directors and executive officers is 15/F, South Building, Hipark Phase 2, Xiaoshan District, Hangzhou 310000, Zhejiang Province, People's Republic of China.
- *** For each person or group included in this column, percentage of total voting power represents voting power based on both Class A and Class B ordinary shares held by such person or group with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class. Each holder of our Class A ordinary shares is entitled to one vote per share. Each holder of our Class B ordinary shares is entitled to ten votes per share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a one-for-one basis, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.
- (1) Represents (i) 949,960,000 Class B ordinary shares held by Lanlan Ltd., a BVI business company, (ii) 15,000,000 Class A ordinary shares issuable to Mr. Shanglue Xiao upon exercise of options within 60 days after February 28, 2021, and (iii) 7,500,000 Class A ordinary shares issuable to Mr. Shanglue Xiao upon vesting of restricted share units within 60 days after February 28, 2021. Lanlan Ltd. is wholly owned by Mr. Shanglue Xiao. The registered address of Lanlan Ltd. is Maples Corporate Services (BVI) Limited of Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands.
 - (2) The business address of Mr. Wei Ying is 3/F, K.stone Building, No. 1 East Yan'an Road, Huangpu District, Shanghai, People's Republic of China.
 - (3) The business address of Mr. Li-Lan Cheng is 11/F Floor, Yinlin Building, No. 788 Guangzhong Road, Shanghai, China.
 - (4) The business address of Mr. Gao Wang is 699 Hongfeng Road, Pudong New District, Shanghai 201206, China.
 - (5) The business address of Mr. Suqin Xi is Jingyi Villa, No. 5 Geling Road, Beishan Street, Xihu District, Hangzhou, China.
 - (6) Represents 949,960,000 Class B ordinary shares held by Lanlan Ltd., a BVI business company. Lanlan Ltd. is wholly owned by Mr. Shanglue Xiao. The registered address of Lanlan Ltd. is Maples Corporate Services (BVI) Limited of Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands.
 - (7) Represents (i) 202,354,052 Class A Ordinary Shares held by Eastern Bell XIX Investment Limited, a company incorporated in the British Virgin Islands, and (ii) 56,800,000 Class A ordinary shares held by Eastern Bell XII Investment Limited, a company incorporated in the British Virgin Islands. The registered address of each of Eastern Bell XIX Investment Limited and Eastern Bell XII Investment Limited is Trinity Chambers, P.O. Box 4301, Road Town, Tortola, British Virgin Islands. Eastern Bell XIX Investment Limited is wholly owned by Suzhou Zhongding No. 3 Venture Capital Center (Limited Partnership) (苏州钟鼎三号创业投资中心(有限合伙)), whose general partners are Shanghai Dingying Investment Management Center (Limited Partnership) (上海鼎迎投资管理中心(有限合伙)) and Suzhou Zhongding Hengtang Equity Investment Management Center (Limited Partnership) (苏州钟鼎恒棠股权投资管理中心(有限合伙)), each of which is ultimately controlled by Mr. Li Yan. Eastern Bell XII Investment Limited is wholly owned by Suzhou Zhongding No. 4 Venture Capital Center (Limited Partnership) (苏州钟鼎四号创业投资中心(有限合伙)), whose general partners are Shanghai Dingying Investment Management Center (Limited Partnership) (上海鼎迎投资管理中心(有限合伙)) and Shanghai Zhongding Investment Center (Limited Partnership) (上海钟鼎创业投资中心(有限合伙)), each of which is ultimately controlled by Mr. Li Yan.
 - (8) Represents 215,800,000 Class A ordinary shares held by CPYD Singapore Pte. Ltd., a Singapore exempted private company limited by share. The registered address of CPYD Singapore Pte. Ltd. is Marker Icon, 1 Temasek Avenue, #20-01 Millennia Tower, Singapore 039192. CPYD Singapore Pte. Ltd. is beneficially owned and controlled by Mr. David Hand. CPYD Singapore Pte. Ltd. is a fund managed by Crescent Point.
 - (9) Represents (i) 126,820,000 Class A ordinary shares and (ii) 2,111,248 ADSs, representing 21,112,480 Class A ordinary shares, held by Fasturn Overseas Limited, a BVI business company. Fasturn Overseas Limited is wholly owned by Mr. Yuan Chen. The registered address of Fasturn Overseas Limited is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.
 - (10) Represents 110,803,324 Class A ordinary shares held by Acceleration S Limited, a BVI business company. Acceleration S Limited is ultimately controlled by Mr. Shangzhi Wu. The registered address of Acceleration S Limited is Maples Corporate Services (BVI) Limited, Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands.

- (11) Represents (i) 94,350,000 Class A ordinary shares and (ii) 1,538,249 ADSs, representing 15,382,490 Class A ordinary shares, held by Trustbridge Partners IV, LP a Cayman Islands limited partnership. Trustbridge Partners IV, LP is controlled by TB Alternative Assets Ltd, an investment adviser organized under the Cayman Islands and registered under Section 203 of the Investment Advisors Act of 1940. TB Alternative Assets Ltd acts as the investment adviser of Trustbridge Partners IV LP. The registered address of Trustbridge Partners IV, LP is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The business address of TB Alternative Assets Ltd is c/o Maples Corporate Services Limited, Uglund House, Grand Cayman, Cayman Islands, KY1-1104.

To our knowledge, as of February 28, 2021, 357,997,170 of our ordinary shares were held by one record holder in the United States, which was Deutsche Bank Trust Company Americas, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

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, while holders of Class B ordinary shares are entitled to ten votes per share.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Contractual Arrangements with our Variable Interest Entity and its Shareholders

See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities and Their Respective Shareholders.”

Shareholders Agreement

We entered into our amended and restated shareholders agreement on June 4, 2018 with our shareholders, which consist of holders of ordinary shares and preferred shares. The shareholders agreement provides for certain shareholders’ rights, including information and inspection rights, right of participation, right of first refusal and co-sale rights, and contains provisions governing our board of directors and other corporate governance matters.

Registration Rights Granted to Shareholders

We have granted certain registration rights to our shareholders. Set forth below is a description of the registration rights granted under the shareholders agreement.

Demand Registration Rights. At any time after the earlier of (i) June 4, 2021 or (ii) six months after the completion of our initial public offering, holders of at least twenty percent (20%) of the registrable securities (including preferred shares and ordinary shares issued upon conversion of preferred shares) then issued and outstanding have the right to demand that we file a registration statement of all registrable securities that the holders request to be registered and included in such registration by written notice. Other than required by the underwriter(s) in connection with our initial public offering, at least twenty-five percent (25%) of the registrable securities requested by the holders to be included in the underwriting and registration shall be so included. We have the right to defer filing of a registration statement for a period of not more than 90 days after the receipt of the request of the initiating holders if we furnish to the holders requesting registration a certificate signed by our president or chief executive officer stating that in the good faith judgment of our board of directors, it would be materially detrimental to us and our shareholders for such registration statement to be filed at such time. However, we cannot exercise the deferral right more than once in any twelve-month period. We are obligated to effect no more than three demand registrations, other than demand registration to be effected pursuant to registration statement on Form F-3, for which an unlimited number of demand registrations shall be permitted.

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Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities, we must offer shareholders an opportunity to include in the registration all or any part of the registrable securities held by such holders. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, and the number of shares that may be included in the registration and the underwriting shall be allocated (i) first, to us, (ii) second, to each holder requesting inclusion of its 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; provided that at least twenty-five percent (25%) of the registrable securities requested by the holders to be included in the underwriting and registration shall be so included and all shares that are not registrable securities shall first be excluded from such registration and underwriting before any registrable securities are so excluded.

Form F-3 Registration Rights. Our shareholders may request us in writing to file an unlimited number of registration statements on Form F-3. We shall effect the registration of the securities on Form F-3 as soon as practicable, except in certain circumstances.

Expenses of Registration. We will bear all registration expenses, other than underwriting discounts and commissions.

Termination of Registration Rights. Our shareholders' registration rights will terminate (i) after two years of the initial public offering, or (ii) all such registrable securities proposed to be sold by a shareholder may then be sold under Rule 144 promulgated under the Securities Act.

Employment Agreements and Indemnification Agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Employment Agreements and Indemnification Agreements."

Share Incentive Plan

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers— 2019 Stock Incentive Plan."

Transactions with Our Founder's Related Entity

Transactions with Small Ye Group, or Small Ye. Small Ye is under control of Mr. Shanglue Xiao, our chairman and chief executive officer. In 2018, 2019 and 2020, we purchased products from Small Ye in the amount of nil, RMB3.1 million and RMB0.3 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB0.7 million and RMB1.0 million, respectively, due to Small Ye, representing the payments due to Small Ye for products purchased from Small Ye.

Transactions with Our Equity Investees

Transaction with Beijing Siwei Technology and Culture Co., Ltd., or Beijing Siwei. Beijing Siwei is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Beijing Siwei in the amount of RMB0.3 million, RMB5.6 million and RMB7.7 million, respectively. As of December 31, 2018, 2019 and 2020, we had RMB0.2 million, RMB0.1 million and RMB0.3 million, respectively, due to Beijing Siwei, representing the payments due to Beijing Siwei for products purchased from Beijing Siwei.

Transaction with Guangdong Weixin Technology Co Ltd., or Guangdong Weixin. Guangdong Weixin is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Guangdong Weixin in the amount of RMB37.0 million, RMB79.3 million and RMB9.2 million, respectively. As of December 31, 2018, 2019 and 2020, we had RMB70 thousand, RMB0.1 million and 0.1 million, respectively, due to Guangdong Weixin, representing the payments in year 2018 and deposits in year 2019 due to Guangdong Weixin for products purchased from Guangdong Weixin. As of December 31, 2018, 2019 and 2020, we had nil, RMB5.8 million and RMB3.7 million, respectively, advance to Guangdong Weixin, representing the advance payment for products purchased from Guangdong Weixin. In 2018, 2019 and 2020, we provided factoring services to Guangdong Weixin in the amount of nil, nil and RMB58 thousand, respectively.

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Transaction with Guangzhou Misili Personal care Co., Ltd., or Guangzhou Misili. Guangzhou Misili is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Guangzhou Misili in the amount of nil, RMB8.2 million and RMB3.3 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB0.3 million and RMB0.3 million, respectively, due to Guangzhou Misili, representing the payments due to Guangzhou Misili for products purchased from Guangzhou Misili.

Transaction with Hainan Yunding Supply Chain Management Co., Ltd, or Hainan Yunding. Hainan Yunding is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Hainan Yunding in the amount of nil, nil and RMB1.7 million, respectively.

Transaction with Hangzhou Adopt A Cow Biological Technology Co., Ltd., or Hangzhou Biological Technology. Hangzhou Biological Technology is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Hangzhou Biological Technology in the amount of RMB0.5 million, RMB103.3 million and RMB53.8 million, respectively. As of December 31, 2018, 2019 and 2020, we had RMB0.6 million, RMB4.9 million and RMB4.2 million, respectively, due to Hangzhou Biological Technology, representing the payments due to Hangzhou Biological Technology for products purchased from Hangzhou Biological Technology. In 2018, 2019 and 2020, we provided factoring services to Hangzhou Biological Technology in the amount of nil, nil and RMB73 thousand, respectively.

Transaction with Hangzhou Bixin Biology Technology Co., Ltd., or Hangzhou Bixin. Hangzhou Bixin is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Hangzhou Bixin in the amount of nil, RMB69.3 million and RMB31.8 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB0.3 million and RMB3.4 million, respectively, due to Hangzhou Bixin, representing the payments due to Hangzhou Bixin for products purchased from Hangzhou Bixin. In 2018, 2019 and 2020, we provided marketplace service to Hangzhou Bixin in the amount of nil, RMB0.4 million and RMB2.8 million, respectively. In 2018, 2019 and 2020, we provided factoring services to Hangzhou Bixin in the amount of nil, nil and RMB31 thousand, respectively.

Transaction with Hangzhou Dianhua Technology Co., Ltd., or Hangzhou Dianhua. Hangzhou Dianhua is our equity investee and our supplier. As of December 31, 2018, 2019 and 2020, we had nil, RMB0.1 million and RMB0.1 million, respectively, due to Hangzhou Dianhua, representing the payments due to Hangzhou Dianhua for products purchased from Hangzhou Dianhua.

Transaction with Hangzhou Huaji Brand Marketing Management Co., Ltd, or Hangzhou Huaji. Hangzhou Huaji is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Hangzhou Huaji in the amount of nil, nil and RMB2.6 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB0.9 million, respectively, due to Hangzhou Huaji, representing the payments due to Hangzhou Huaji for products purchased from Hangzhou Huaji.

Transaction with Hangzhou Ji'ao Sanitary Products Co., Ltd, or Hangzhou Ji'ao. Hangzhou Ji'ao is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Hangzhou Ji'ao in the amount of nil, nil and RMB1.7 million, respectively.

Transaction with Hangzhou Jixi Internet Technology Co., Ltd., or Hangzhou Jixi. Hangzhou Jixi is our equity investee and our supplier. As of December 31, 2018, 2019 and 2020, we had nil, RMB1.0 million and RMB3.0 million, respectively, due from Hangzhou Jixi representing an one-year interest free loan. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB1.8 million, respectively, due to Hangzhou Jixi, representing the payments due to Hangzhou Jixi for products purchased from Hangzhou Jixi. In 2018, 2019 and 2020, we provided marketplace service to Hangzhou Jixi in the amount of nil, nil and RMB0.6 million, respectively.

Transaction with Hangzhou Tianshi Technology Co. Ltd., or Tianshi. Tianshi is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Tianshi in the amount of RMB39.8 million, RMB25.3 million and RMB17.0 million, respectively. As of December 31, 2018, 2019 and 2020, we had RMB5.6 million, RMB0.2 million and RMB0.8 million, respectively, due to Tianshi, representing the payments due to Tianshi for products purchased from Tianshi.

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Transaction with Hangzhou Yuncheng Brand Management Co., Ltd, or Hangzhou Yuncheng. Hangzhou Yuncheng is our equity investee and our supplier. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB1.0 million, respectively, due from Hangzhou Yuncheng, representing factoring receivables due to offering loans. In 2018, 2019 and 2020, we purchased products from Hangzhou Yuncheng in the amount of nil, nil and RMB2.2 million, respectively. In 2018, 2019 and 2020, we provided marketplace service to Hangzhou Yuncheng in the amount of nil, nil and RMB2.9 million, respectively. In 2018, 2019 and 2020, we provided factoring services to Hangzhou Yuncheng in the amount of nil, nil and RMB0.2 million, respectively.

Transaction with Hangzhou Zhangtaihe Health Technology Co., Ltd, or Zhangtaihe. Zhangtaihe is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Zhangtaihe in the amount of RMB32.1 million, RMB16.4 million and RMB0.5 million, respectively. As of December 31, 2018, 2019 and 2020, we had RMB5.0 million, RMB0.4 million and RMB0.6 million, respectively, due to Zhangtaihe, representing the payments due to Zhangtaihe for products purchased from Zhangtaihe. In 2018, 2019 and 2020, we provided marketplace service to Zhangtaihe in the amount of nil, nil and RMB0.8 million, respectively.

Transaction with Hunan Haomeihaomei Cosmetics Co., Ltd., or Hunan Haomeihaomei. Hunan Haomeihaomei is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Hunan Haomeihaomei in the amount of nil, RMB13.4 million and RMB16.4 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB0.5 million and RMB1.7 million, respectively, due to Hunan Haomeihaomei, representing the payments due to Hunan Haomeihaomei for products purchased from Hunan Haomeihaomei.

Transaction with Huzhou Boyun E-commerce Co., Ltd, or Huzhou Boyun. Huzhou Boyun is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Huzhou Boyun in the amount of nil, nil and RMB0.3 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB0.3 million, respectively, due to Huzhou Boyun, representing the payments due to Huzhou Boyun for products purchased from Huzhou Boyun.

Transaction with Ningbo Langfei Household Appliance Co., Ltd., or Ningbo Langfei. Ningbo Langfei is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Ningbo Langfei in the amount of nil, RMB3.5 million and RMB1.1 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB0.1 million and RMB0.1 million, respectively, due to Ningbo Langfei, representing the payments due to Ningbo Langfei for products purchased from Ningbo Langfei.

Transaction with Shanxi Yunnong Supply Chain Management Co., Ltd., or Shanxi Yunnong. Shanxi Yunnong is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Shanxi Yunnong in the amount of nil, RMB8.0 million and RMB21.5 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB4.7 million and RMB0.6 million, respectively, due to Shanxi Yunnong, representing the payments due to Shanxi Yunnong for products purchased from Shanxi Yunnong.

Transaction with Shenzhen Liumangyike Food and Beverage Management Co., Ltd., or Shenzhen Liumangyike. Shenzhen Liumangyike is our equity investee and our supplier. As of December 31, 2018, 2019 and 2020, we had nil, RMB66 thousand and RMB0.2 million, respectively, due to Shenzhen Liumangyike, representing the payments due to Shenzhen Liumangyike for products purchased from Shenzhen Liumangyike. In 2018, 2019 and 2020, we provided marketplace service to Shenzhen Liumangyike in the amount of nil, RMB0.3 million and RMB0.2 million, respectively.

Transaction with Yunmu Dairy (Jiangsu) Co., Ltd, or Yunmu Dairy. Yunmu Dairy is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Yunmu Dairy in the amount of nil, nil and RMB4.5 million, respectively.

Transaction with Zhejiang Jimi E-commerce Co., Ltd, or Zhejiang Jimi. Zhejiang Jimi is our equity investee and our supplier. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB2.5 million, respectively, due to Zhejiang Jimi, representing the payments due to Zhejiang Jimi for products purchased from Zhejiang Jimi. In 2018, 2019 and 2020, we provided marketplace service to Zhejiang Jimi in the amount of nil, nil and RMB2.4 million, respectively.

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Transaction with Zhejiang Jibi Technology Co., Ltd., or Zhejiang Jibi. Zhejiang Jibi is our equity investee and our supplier. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB0.5 million, respectively, due to Zhejiang Jibi, representing the payments due to Zhejiang Jibi for products purchased from Zhejiang Jibi. In 2018, 2019 and 2020, we provided marketplace service to Zhejiang Jibi in the amount of nil, nil and RMB0.5 million, respectively.

Transaction with Zhejiang Zhengdao Fengju Supply Chain Management Co., Ltd., or Zhejiang Zhengdao Fengju. Zhejiang Zhengdao Fengju is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Zhejiang Zhengdao Fengju in the amount of nil, RMB31.4 million and RMB28.4 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, RMB6.0 million and RMB2.2 million, respectively, due to Zhejiang Zhengdao Fengju, representing the payments due to Zhejiang Zhengdao Fengju for products purchased from Zhejiang Zhengdao Fengju.

Transaction with Hangzhou Xingsheng Brand Marketing Management Co., Ltd., or Xingsheng. Xingsheng is our equity investee and our supplier. In 2018, 2019 and 2020, we purchased products from Xingsheng in the amount of nil, nil and RMB0.6 million, respectively. As of December 31, 2018, 2019 and 2020, we had nil, nil and RMB0.3 million, respectively, due to Xingsheng, representing the payments due to Xingsheng for products purchased from Xingsheng.

We believe the terms of the transactions with Small Ye, Beijing Siwei, Guangdong Weixin, Guangzhou Misili, Hainan Yunding, Hangzhou Biological Technology, Hangzhou Bixin, Hangzhou Dianhua, Hangzhou Huaaji, Hangzhou Ji'ao, Hangzhou Jixi, Tianshi, Hangzhou Yuncheng, Zhangtaihe, Hunan Haomeihaomei, Huzhou Boyun, Ningbo Langfei, Shanxi Yunnong, Shenzhen Liumangyike, Yunmu Dairy, Zhejiang Jimi, Zhejiang Jibi, Zhejiang Zhengdao Fengju, and Xingsheng are comparable to those with third-party suppliers.

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 be involved in disputes and legal or administrative proceedings in the ordinary course of our business. In May 2017, we received a notice from the local Administration for Market Regulation in Hangzhou, which ruled that our sales and marketing practice adopted in our early stage of development prior to February 2016 violated the Regulations on the Prohibition of Pyramid Selling and imposed a penalty of approximately RMB9.6 million (US\$1.4 million). We paid this fine in June 2017 and have adjusted our business practices since February 2016 to comply with the Regulations on the Prohibition of Pyramid Selling and other applicable regulations. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Pyramid Selling in the PRC” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Any lack of requisite approvals, licenses or permits applicable to our business or failure to comply with any requirements of PRC laws, regulations and policies may have a material and adverse impact on our business, financial condition and results of operations.”

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Starting in November 2019, we and certain of our officers and directors and others have been named as defendants in putative securities class actions captioned *In Re Yunji Inc., Securities Litigation*, No. 1:19-cv-06403-LDH (U.S. District Court for the Eastern District of New York, Amended Complaint filed March 19, 2020) (the “Federal Court Action”), *Axel Lindholm v. Yunji Inc. et al.*, Case No. 21635/2020E (Bronx County Supreme Court of the State of New York, filed on January 31, 2020) (the “Lindholm Case”), *Christopher Guilford v. Yunji, et al.*, Case No. 23095/2020E (Bronx County Supreme Court of the State of New York, filed on March 3, 2020) (the “Guilford Case”), and *Stephanie Ng v. Yunji, et al.*, Case No. 24906/2020E (Bronx County Supreme Court of the State of New York, filed on May 29, 2020) (the “Ng Case”). The actions allege that defendants made misstatements and omissions in connection with our initial public offering in May 2019 in violation of the Securities Act of 1933. On March 19, 2020, an amended complaint was filed in the Federal Court Action. On March 31, 2021, the Court granted our motion to dismiss the Federal Court Action, and plaintiffs’ time to file a second amended complaint has expired. The Lindholm Case, the Guilford Case, the Ng Case otherwise remain in their preliminary stages.

Dividend Policy

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

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

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on 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 the ADSs to the depository, as the registered holder of such Class A ordinary shares, and the depository then will pay such amounts to the 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

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” below for our host market and trading symbol. We have a dual-class structure in which Class B ordinary shares have different voting rights from Class A ordinary shares. Class B ordinary shares are each entitled to ten votes, whereas Class A ordinary shares are each entitled to one vote. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and the ADSs may view as beneficial.”

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs, each represents ten of our Class A ordinary shares, have been listed on Nasdaq since May 3, 2019. The ADSs trade under the symbol “YJ.”

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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 amended and restated memorandum and articles of association and of the Companies Act, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our amended and restated memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the laws of the Cayman Islands.

Ordinary Shares. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members. We may not issue shares to bearer. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Each Class B ordinary share is convertible into an equal number of Class A ordinary shares upon the occurrence of certain matters as set forth in our memorandum and articles of association, including upon any direct or indirect sale, transfer, assignment or disposition of Class B ordinary shares by a holder thereof to any person other than holders of Class B ordinary shares or their affiliates. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Dividends. Our directors may from time to time declare dividends (including interim dividends) and other distributions on our shares in issue and authorize payment of the same out of the funds of our company lawfully available therefor. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend shall exceed the amount recommended by our directors. Our memorandum and articles of association provide that dividends may be declared and paid out of the funds of our Company lawfully available therefor. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account; provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary shares is entitled to one vote per share and each holder of Class B ordinary shares is entitled to ten votes per share. Our Class A ordinary shares and Class B ordinary shares votes together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any one shareholder holding not less than 10% of the votes attaching to the shares present in person or by proxy.

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 cast attaching to the issued and outstanding ordinary shares at a meeting. 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, divide or combine their shares by ordinary resolution.

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General Meetings of Shareholders. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board of directors or by our directors (acting by a resolution of our board). Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of, at the time when the meeting proceeds to business, one or more of our shareholders holding shares which carry in aggregate (or representing by proxy) not less than one-third of all votes attaching to all of our shares in issue and entitled to vote at such general meeting.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association provide that upon the requisition of any one or more of our shareholders holding shares which carry in aggregate not less than one-third of all votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale of Class B ordinary shares by a holder thereof to any person or entity, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares.

Transfer of Ordinary Shares. Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the Nasdaq Stock Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

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The registration of transfers may, on ten calendar days' notice being given by advertisement in such one or more newspapers, by electronic means or by any other means in accordance with the rules of the Nasdaq Stock Market be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

Liquidation. On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, such the assets will be distributed so that, as nearly as may be, the losses are borne by our shareholders in proportion to the par value of the shares held by them.

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

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

Variations of Rights of Shares. Whenever the capital of our company is divided into different classes the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied with the consent in writing of the holders of all of the issued shares of that class or with the sanction of an ordinary 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 that class, be deemed to be materially adversely varied by the creation, allotment 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.

Issuance of Additional Shares. Our 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 of available authorized but unissued shares.

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

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and

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- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association, our register of mortgages and charges, and any special resolutions passed by our shareholders). However, we intend to provide our shareholders with annual audited financial statements. Under Cayman Islands law, the names of our current directors can be obtained from a search conducted at the Registrar of Companies.

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

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

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

Exempted Company. We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Foreign Exchange.”

E. Taxation

The following summary of certain Cayman Islands, PRC and U.S. federal income tax considerations of an investment in our ADSs or Class A 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 considerations relating to an investment in our ADSs or Class A ordinary shares, such as tax considerations under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States.

Cayman Islands Taxation

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.

Payments of dividends and capital in respect of our ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares or the ADSs, nor will gains derived from the disposal of our ordinary shares or the ADSs be subject to Cayman Islands income or corporation tax.

People’s Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China 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.

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We believe that Yunji Inc. is not a PRC resident enterprise for PRC tax purposes. Yunji Inc. is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Yunji Inc. meets all of the conditions above. Yunji Inc. is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. 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.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

If the PRC tax authorities determine that Yunji Inc. is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including the 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. It is also unclear whether non-PRC shareholders of Yunji Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Yunji Inc. is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Yunji Inc., is not deemed to be a PRC resident enterprise, holders of the ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Public Notice 7 and SAT Public Notice 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee, or the PRC entity which directly owns such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 7 and SAT Public Notice 37, and we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37, or to establish that we should not be taxed under these circulars. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

United States 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 the ADSs or ordinary shares by a U.S. Holder (as defined below) that acquires the ADSs and holds the ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service, or the IRS, with respect to any U.S. federal income tax considerations described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift, and alternative minimum tax considerations, the Medicare tax on certain net investment income or any state, local and non-U.S. tax considerations relating to the ownership or disposition of the ADSs or ordinary shares. The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;

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- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- holders who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own 10% or more of our stock (by vote or value); or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding the ADSs or ordinary shares through such entities,

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of the ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of the 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 in or organized under the law of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of the ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding the ADSs or ordinary shares and their partners are urged to consult their tax advisors regarding an investment in the ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are and will continue to be true, and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms. For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to U.S. federal income tax.

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 is attributable to assets that produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles are taken into account. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although the law in this regard is not entirely clear, we treat our VIEs and their subsidiaries as being owned by us for U.S. federal income tax purposes because we control their management decisions and are entitled to substantially all of the economic benefits associated with them. As a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of our VIEs for U.S. federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of our VIEs and their subsidiaries for U.S. federal income tax purposes, and based upon our current and projected income and assets, and projections as to the market price of the ADSs, we do not believe we were a PFIC for the 2020 taxable year and do not expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a factual determination made annually that will depend, in part, upon the composition of our income and assets. Fluctuations in the market price of the ADSs may cause us to be or become a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of the ADSs from time to time (which may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our anticipated market capitalization. Among other matters, if our market capitalization is less than anticipated or subsequently declines, we may be or become a PFIC for the current or future taxable years. Recent fluctuations in the market price of our ADSs increased our risk of becoming a PFIC. Because the market price of our ADSs and ordinary shares may continue to fluctuate considerably, we cannot assure you of our PFIC status for any taxable year. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets and the cash raised. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are a PFIC for any year during which a U.S. Holder holds the ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds the ADSs or ordinary shares.

The discussion below under “—Dividends” and “—Sale or Other Disposition” is written on the basis that we will not be or become classified as a PFIC for U.S. federal income tax purposes. If, however, we are or become a PFIC, you could be subject to additional United States federal income taxes on gain recognized with respect to the ADSs and common shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. The U.S. federal income tax rules that apply generally if we are treated as a PFIC are discussed below under “—Passive Foreign Investment Company Rules.”

Dividends

Any cash distributions paid on the ADSs or ordinary shares (including the amount of any PRC tax withheld) 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 depository, 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, you should expect to treat the full amount of any distribution as a “dividend” for U.S. federal income tax purposes. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Dividends received by individuals and other non-corporate U.S. Holders will be subject to tax at the lower capital gain tax rate applicable to “qualified dividend income”; provided that certain conditions are satisfied, including that (1) the ADSs or ordinary shares on which the dividends are paid 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 benefit of the United States-PRC income tax treaty (the “Treaty”), (2) 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 is paid and the preceding taxable year, and (3) certain holding period requirements are met.

The ADSs have been approved for listing on the Nasdaq Global Market. Provided that this listing is approved, we believe that the ADSs should generally be considered to be readily tradable on an established securities market in the United States. There can be no assurance that the ADSs will continue to be considered readily tradable on an established securities market in later years. Because the ordinary shares will not be listed on a U.S. exchange, we do not believe that dividends received with respect to ordinary shares that are not represented by ADSs will be treated as qualified dividends unless we meet certain residence and Treaty eligibility requirements described below.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, and regardless of whether the ADSs are readily tradable on an established securities market in the United States, should be eligible for the reduced rates of taxation described in the preceding paragraph. U.S. Holders are urged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to the ADSs or ordinary shares.

For U.S. foreign tax credit purposes, dividends paid on the ADSs or ordinary shares 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 withholding taxes on dividends paid on the ADSs or ordinary shares (see “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”). Depending on the U.S. Holder’s particular facts and circumstances and subject to a number of complex conditions and limitations, PRC withholding taxes on dividends that are non-refundable under the Treaty may be treated as foreign taxes eligible for credit against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for 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 holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. The gain or loss will generally be capital gain or loss and will be long-term if the ADSs or ordinary shares have been held for more than one year. The deductibility of a capital loss may be subject to limitations. Any such gain or loss that the U.S. Holder recognizes will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes, which could limit the availability of foreign tax credits. Nevertheless, in the event we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the Treaty. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the Treaty may elect to treat such gain as PRC source income. If a U.S. Holder is not eligible for the benefits of the Treaty or fails to make the election to treat any gain as foreign source, then such U.S. Holder may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). Each U.S. Holder is advised to consult its tax advisor regarding the tax consequences if a foreign tax is imposed on a disposition of the 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 holds the ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition including, under certain circumstances, a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (each, a "pre-PFIC year") will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year, increased by an additional tax equal to the interest on the resulting tax deemed deferred with respect to each such taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds the ADSs or ordinary shares, and any of our subsidiaries, our VIEs or any of their subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, our VIEs or their subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If a U.S. Holder makes this election with respect to the ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of the ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that 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 the 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.

The mark-to-market election is available only for "marketable stock," which 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 or other market, as defined in applicable United States Treasury regulations. The ADSs, but not our ordinary shares, will be treated as marketable stock upon their listing on the Nasdaq Global Market. We anticipate that the ADSs should qualify as being regularly traded, but no assurances may be given in this regard.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

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We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns the ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax consequences of owning and disposing of the ADSs or ordinary shares if we are or become a PFIC.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year. The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depository of the ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at www.yunjiglobal.com. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inflation

To date, 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 changes in the consumer price index for December 2018, 2019 and 2020 were increases of 1.9%, 4.5% and 0.2%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

Market Risks

Foreign Exchange Risk

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.

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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.

All of our revenues are denominated in RMB, while a portion of our financial assets are denominated in U.S. dollars. To date, we have entered into cross currency swap contracts with fix exchange rate between U.S. dollar and Renminbi to help hedge our exposure to foreign currency risk. We do not believe that we currently have any significant direct foreign exchange 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.

As of December 31, 2020, we had Renminbi-denominated cash, cash equivalents and restricted cash of RMB389.5 million, U.S. dollar-denominated cash, cash equivalents and restricted cash of US\$122.3 million. Assuming we had converted RMB389.5 million into U.S. dollars at the exchange rate of RMB6.5250 for US\$1.00 as of December 31, 2020, our U.S. dollar-denominated cash, cash equivalents and restricted cash would have been US\$182.0 million. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash, cash equivalents and restricted cash would have been US\$176.6 million instead. Assuming we had converted US\$122.3 million into RMB at the exchange rate of RMB6.5250 for US\$1.00 as of December 31, 2020, our Renminbi-denominated cash, cash equivalents and restricted cash would have been RMB1,187.4 million. If the RMB had depreciated by 10% against the U.S. dollar, our Renminbi-denominated cash, cash equivalents and restricted cash would have been RMB1,267.2 million instead.

Interest rate risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

We may invest the net proceeds in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

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 Charges the ADS Holders May Have to Pay**

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):

<u>Service</u>	<u>Fees</u>
• 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 ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of 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 ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to 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.

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

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

Fees and Other Payments Made by the Depositary to Us

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time. For the year ended December 31, 2020, we received reimbursement in the amount of approximately RMB0.1 million (US\$0.02 million) 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 333-230424) in relation to our initial public offering, which was declared effective by the SEC on May 2, 2019. Our initial public offering closed in May 2019. Morgan Stanley & Co. LLC, Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC and China International Capital Corporation Hong Kong Securities Limited were the representatives of the underwriters for our initial public offering. Counting in the ADSs sold upon the exercise of the over-allotment option by the underwriters, we offered and sold an aggregate of 110,000,000 ADSs representing 1,100,000,000 Class A ordinary shares, at an initial public offering price of US\$11.00 per ADS, and received approximately US\$109.0 million of proceeds after deducting underwriting discounts commissions and other offering expenses payable by us.

For the period from May 2, 2019, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2020, the total expenses incurred for our company’s account in connection with our initial public offering was approximately US\$14.4 million, which included US\$9.0 million in underwriting discounts and commissions for the initial public offering and approximately US\$5.5 million in other costs and expenses for 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 May 2, 2019, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2020, US\$77.6 million of the net proceeds received from our initial public offering were used for investment in business operations, research and development, and for general corporate purpose. There is no material change in the use of proceeds as described in the F-1 Registration statement. 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

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our chief executive officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management, with the participation of our chief executive officer, has concluded that, as of December 31, 2020, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company’s assets that could have a material effect on the consolidated financial statements.

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

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management, including our chief executive officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2020 using the criteria set forth in the report “Internal Control—Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Remediation of the Material Weaknesses in Internal Control over Financial Reporting Reported in 2018 and 2019

As of December 31, 2020, based on an assessment performed by our management on the performance of certain remediation measures (specified below), we determined that the material weaknesses in our internal control over financial reporting previously identified by us and our independent registered public accounting firm in connection with the audits of our consolidated financial statements for the years ended December 31, 2018 and 2019 had been remediated.

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 weaknesses identified related to (i) our lack of sufficient financial accounting staff and management with appropriate levels of accounting knowledge and experience to address complex U.S. GAAP accounting issues and to prepare and review financial statements and related disclosures under U.S. GAAP and SEC reporting and compliance requirements and (ii) our lack of sufficient documented financial closing policies and procedures, especially those related to period end expenses cut-off and accruals.

We have implemented a number of remedial measures to address the material weaknesses that were identified, including (1) establishing clear roles and responsibilities in our accounting and financial reporting function to address accounting and financial reporting issues; (2) strengthening our financial reporting team by hiring additional personnel with experiences in U.S. GAAP and SEC reporting; (3) increasing the accounting and SEC reporting acumen and accountability of our finance organization employees through training programs designed to enhance these employees’ knowledge and competency with respect to U.S. GAAP and SEC reporting; (4) formalizing the procedures and controls relating to our financial closing and reporting process, including a formal documented accounting manual, period-end closing and disclosure checklists, and a set of accounting policies that are U.S. GAAP compliant; (5) enhancing our monitoring controls over financial reporting, including review by our financial vice president, and other senior finance staff over the application of U.S. GAAP accounting requirements, the selection and evaluation of U.S. GAAP accounting policies, critical accounting judgments and estimates, reporting and disclosures; and (6) engaging an external consulting firm to assist us in improvement of overall internal controls in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act.

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company's internal control over financial reporting as of December 31, 2020, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

See "Item 6. Directors, Senior Management and Employees—C. Board Practices."

ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in March 2019. We have posted a copy of our code of business conduct and ethics on our website at www.yunjiglobal.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP and its affiliates, our principal external auditors, for the periods indicated. We did not pay any other fees to our principal auditor during the periods indicated below.

	For the Year Ended December 31,	
	2019	2020
	(in thousands of RMB)	
Audit fees ⁽¹⁾	6,000	8,680
Tax fees ⁽²⁾	1,223	477
All other fees	—	—

Notes:

- (1) "Audit fees" means the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual financial statements and the review of our comparative interim financial statements, including audit fees relating to our initial public offering in 2019.
- (2) "Tax fee" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice, and tax planning.

The policy of our audit committee is to pre-approve all audit and other service provided by PricewaterhouseCoopers Zhong Tian LLP and its affiliates 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

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On August 28, 2019, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$20 million of our ADSs over the following six months through February 28, 2020. The share repurchase program was publicly announced on August 28, 2019. We accumulatively repurchased approximately US\$20 million of ADSs under the share repurchase program and closed the share repurchase program in January 2020.

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The table below is a summary of the ADSs repurchased by us in 2020. All shares were repurchased in the open market pursuant to the share repurchase program that was announced on August 28, 2019 and closed in January 2020.

<u>Period</u>	<u>Total Number of ADSs Purchased</u>	<u>Average Price Paid per ADSs (US\$)</u>	<u>Total Number of ADSs Purchased as Part of Share Repurchase Program</u>	<u>Approximate Dollar Value of ADSs that May Yet Be Purchased Under Share Repurchase Program (US\$, in millions)</u>
January 2020	624,641	5.36	624,641	0

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G CORPORATE GOVERNANCE

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to Nasdaq’s corporate governance requirements. However, Nasdaq 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 Nasdaq’s corporate governance requirements. Nasdaq Rule 5620 requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer’s fiscal year-end. However, Nasdaq Rule 5615(a)(3) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters. Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the Nasdaq Stock Market certifying that neither the Companies Act of the Cayman Islands nor our memorandum and articles of association requires we hold annual shareholders meetings every year. We followed home country practice and did not hold an annual meeting of shareholders in 2019 and 2020. We may, however, hold annual shareholders meetings in the future. As a result of this and other home country practice we may follow in the future, our shareholders may be afforded less protection than they otherwise would under Nasdaq’s corporate governance requirements applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors —Risks Related to Our ADSs—As an exempted 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 Nasdaq’s corporate governance requirements; these practices may afford less protection to shareholders than they would enjoy if we complied fully with Nasdaq’s corporate governance requirements.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to “Item 18. Financial Statements.”

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Yunji Inc. are included at the end of this annual report.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Form F-1 filed on March 21, 2019 (File No. 333-230424))
2.1	Registrant’s Specimen American Depositary Receipt (included in Exhibit 2.3)(incorporated herein by reference to Exhibit 4.3 to the Form S-8 filed on August 30, 2019 (File No. 333-233539))
2.2	Registrant’s Specimen Certificate for Class A Common Shares (incorporated herein by reference to Exhibit 4.2 to the Form F-1 filed on March 21, 2019 (File No. 333-230424))
2.3	Deposit Agreement among the Registrant, the depository and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the Form S-8 filed on August 30, 2019 (File No. 333-233539))
2.4	Amended and Restated Shareholders Agreement between the Registrant and other parties thereto dated June 4, 2018 (incorporated herein by reference to Exhibit 4.4 to the Form F-1 filed on March 21, 2019 (File No. 333-230424))
2.5	Description of Securities (incorporated herein by reference to Exhibit 2.5 to the Form 20-F filed on April 24, 2020 (File No. 001-38877))
4.1	2019 Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form F-1 filed on March 21, 2019 (File No. 333-230424))
4.2	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the Form F-1 filed on March 21, 2019 (File No. 333-230424))
4.3	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the F-1 filed on March 21, 2019 (File No. 333-230424))
4.4*	English translation of the executed form of Proxy Agreement and Power of Attorney by and among a VIE of the Registrant, its shareholders and the WFOE of the Registrant, as currently in effect, and a schedule of all executed Proxy Agreements and Powers of Attorney adopting the same form in respect of each of the VIEs of the Registrant
4.5*	English translation of the executed form of Equity Pledge Agreement by and among a VIE of the Registrant, its shareholders and the WFOE of the Registrant, as currently in effect, and a schedule of all executed Equity Pledge Agreements adopting the same form in respect of each of the VIEs of the Registrant
4.6*	English translation of the executed form of Exclusive Service Agreement by and between a VIE of the Registrant and the WFOE of the Registrant, as currently in effect, and a schedule of all executed Exclusive Service Agreements adopting the same form in respect of each of the VIEs of the Registrant

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.7*	English translation of the executed form of Exclusive Option Agreement by and among a VIE of the Registrant, its shareholders and the WFOE of the Registrant, as currently in effect, and a schedule of all executed Exclusive Option Agreements adopting the same form in respect of each of the VIEs of the Registrant
4.8	English translation of Loan Agreement among Mr. Shanglue Xiao, Mr. Huan Hao and the WFOE of the Registrant, dated December 14, 2018 (incorporated herein by reference to Exhibit 10.12 to the F-1 filed on March 21, 2019 (File No. 333-230424))
4.9	Preferred Share Purchase Agreement among the Registrant, Yunji Sharing and certain other parties thereto dated February 12, 2018 (incorporated herein by reference to Exhibit 10.13 to the F-1 filed on March 21, 2019 (File No. 333-230424))
4.10	Preferred Share Purchase Agreement among the Registrant, the WFOE of the Registrant, Yunji Sharing and certain other parties thereto dated June 4, 2018 (incorporated herein by reference to Exhibit 10.14 to the F-1 filed on March 21, 2019 (File No. 333-230424))
8.1*	Principal Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the F-1 filed on March 21, 2019 (File No. 333-230424))
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of Maples and Calder (Hong Kong) LLP
101.INS*	Inline XBRL Instance Document – this instance document does not appear in the Interactive Data File because its XBRL tags are not embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Scheme Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed 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.

Yunji Inc.

By: /s/ Shanglue Xiao

Name: Shanglue Xiao

Title: Founder, Chairman, and Chief Executive Officer

Date: April 26, 2021

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YUNJI INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Yunji Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Yunji Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive loss, of shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on certain financial instruments in 2020.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

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

Refund payable to members

As described in Notes 2.17 and 14 to the consolidated financial statements, the Company provided a cash incentive to members upon a successful referral that resulted in a sale of merchandise by the Company. The cash incentive was considered payment to a customer and accounted for as a refund to the referring member. Such refund payable was estimated when the membership fees were received, or at the time that the members made merchandise purchases. Management estimated the refund payable based on historical data of the incentives earned by the referring members within their active life cycle. Management applied significant judgment in determining the expected future referral incentives, which involved the use of significant assumptions, including the members' active life cycle and the expected number of members who will earn the incentive. The Company recorded refund payable to members of RMB 4,398 thousands as of December 31, 2020, and recognized reductions of RMB 23,521 thousands to refund payable to members for the year ended December 31, 2020 as changes in estimate. The reductions to refund payable to members were recorded as increases in sales of merchandise.

The principal considerations for our determination that performing procedures relating to refund payable to members is a critical audit matter are there was significant judgment by management in estimating the refund payable to members. This in turn led to significant auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's significant assumptions, including the active life cycle of members and the percentage of referring members.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's estimation of the refund payable to members. These procedures also included, among others, testing management's process for estimating the refund payable to members by (i) testing the completeness and accuracy of the data used; (ii) assessing the appropriateness of the calculation of member's active life cycle based on historical data; and (iii) evaluating the reasonableness of management's significant assumption relating to the expected number of members who will earn the incentive based on historical data of members' behavior.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 26, 2021

We have served as the Company's auditor since 2018.

YUNJI INC.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2020

(All amounts in thousands, except for share and per share data, unless otherwise noted)

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
ASSETS			
Current assets:			
Cash and cash equivalents	883,369	1,063,900	163,050
Restricted cash	84,374	125,844	19,287
Short-term investments	774,736	134,146	20,559
Accounts receivable, net (Allowance for credit losses of nil and RMB 8,603, respectively)	28,527	164,733	25,246
Advance to suppliers	87,289	103,836	15,914
Inventories, net	428,322	135,245	20,727
Amounts due from related parties	6,830	7,841	1,202
Prepaid expenses and other current assets (Allowance for credit losses of nil and RMB 2,972, respectively)	567,432	410,423	62,899
Total current assets	2,860,879	2,145,968	328,884
Non-current assets:			
Property, equipment and software, net	45,344	26,010	3,986
Long-term investments	198,860	158,931	24,357
Deferred tax assets	97,792	59,455	9,112
Operating lease right of use assets, net	43,043	11,324	1,735
Other non-current assets (Allowance for credit losses of nil and RMB 1,514, respectively)	56,281	148,793	22,804
Total non-current assets	441,320	404,513	61,994
Total assets	3,302,199	2,550,481	390,878

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

YUNJI INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2019 AND 2020

(All amounts in thousands, except for share and per share data, unless otherwise noted)

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities (including amounts of the consolidated VIEs and VIEs' subsidiaries without recourse to the primary beneficiary of RMB 818,634 and RMB 635,467 as of December 31, 2019 and 2020, respectively)			
Accounts payable	741,959	501,549	76,866
Deferred revenue	181,828	50,951	7,809
Incentive payables to members	384,486	312,170	47,842
Refund payable to members	26,883	4,398	674
Member management fees payable	78,355	45,841	7,025
Other payable and accrued liabilities	349,111	280,586	43,002
Amounts due to related parties	18,296	22,989	3,523
Operating lease liabilities, current	17,559	6,988	1,071
Total current liabilities	1,798,477	1,225,472	187,812
Non-current liabilities			
Operating lease liabilities, non-current	27,734	8,309	1,273
Deferred tax liabilities	11,329	1,832	281
Total non-current liabilities	39,063	10,141	1,554
Total liabilities	1,837,540	1,235,613	189,366
Commitments and contingencies (Note 28)			

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

YUNJI INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2019 AND 2020

(All amounts in thousands, except for share and per share data, unless otherwise noted)

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Shareholders' equity			
Ordinary shares (US\$0.000005 par value 20,000,000,000 shares authorized as of December 31, 2019 and 2020; 1,208,831,222 Class A ordinary shares and 949,960,000 Class B ordinary shares issued as of December 31, 2019 and 2020; 1,179,445,572 and 1,183,305,412 Class A ordinary shares and 949,960,000 and 949,960,000 Class B ordinary shares outstanding as of December 31, 2019 and 2020, respectively)	70	70	11
Additional paid-in capital	7,255,404	7,327,148	1,122,935
Statutory reserve	11,633	12,624	1,934
Accumulated other comprehensive income	88,863	9,452	1,449
Less: Treasury stock (29,385,650 and 25,525,810 shares as of December 31, 2019 and 2020, respectively)	(96,669)	(85,202)	(13,058)
Accumulated deficit	(5,805,332)	(5,952,085)	(912,197)
Total Yunji Inc. shareholders' equity	1,453,969	1,312,007	201,074
Non-controlling interests	10,690	2,861	438
Total shareholders' equity	1,464,659	1,314,868	201,512
Total liabilities and shareholders' equity	3,302,199	2,550,481	390,878

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(All amounts in thousands, except for share and per share data, unless otherwise noted)

	2018	2019	2020	
	RMB	RMB	RMB	US\$
Revenues:				
Sales of merchandise, net	11,388,425	10,548,322	4,829,397	740,138
Membership program revenue	1,552,437	776,839	42,438	6,503
Marketplace revenue	—	311,914	599,895	91,938
Other revenues	74,363	34,949	58,527	8,970
Total revenues	13,015,225	11,672,024	5,530,257	847,549
Operating cost and expenses:				
Cost of revenues	(10,706,596)	(9,249,474)	(3,939,997)	(603,830)
Fulfilment	(1,162,051)	(965,883)	(450,104)	(68,981)
Sales and marketing	(955,128)	(1,187,462)	(806,140)	(123,546)
Technology and content	(143,645)	(315,167)	(202,817)	(31,083)
General and administrative	(147,208)	(277,487)	(261,877)	(40,135)
Total operating cost and expenses	(13,114,628)	(11,995,473)	(5,660,935)	(867,575)
Other operating income	7,048	68,646	33,218	5,091
Loss from operations	(92,355)	(254,803)	(97,460)	(14,935)
Financial income/(expense), net	46,068	121,370	(8,571)	(1,314)
Foreign exchange loss, net	(685)	(12,397)	(919)	(141)
Other non-operating income/(loss), net	—	8,497	(1,610)	(247)
Loss before income tax expense, and equity in income of affiliates, net of tax	(46,972)	(137,333)	(108,560)	(16,637)
Income tax (expense)/benefit	(12,346)	16,720	(39,298)	(6,022)
Equity in income/(loss) of affiliates, net of tax	2,992	(3,221)	(3,834)	(586)
Net loss	(56,326)	(123,834)	(151,692)	(23,245)
Less: net income/(loss) attributable to non-controlling interests shareholders	3,362	1,928	(5,346)	(819)
Net loss attributable to YUNJI INC.	(59,688)	(125,762)	(146,346)	(22,426)

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(All amounts in thousands, except for share and per share data, unless otherwise noted)

	2018	2019	2020	
	RMB	RMB	RMB	US\$
Accretion on convertible redeemable preferred shares to redemption value	(2,187,633)	(1,532,013)	—	—
Re-designation to Series A convertible redeemable preferred shares from Initial Ordinary Shareholders' contribution, including beneficial conversion feature	(60,796)	—	—	—
Deemed dividend from preferred shareholders	107	—	—	—
Net loss attributable to ordinary shareholders	<u>(2,308,010)</u>	<u>(1,657,775)</u>	<u>(146,346)</u>	<u>(22,426)</u>
Net loss	(56,326)	(123,834)	(151,692)	(23,245)
Other comprehensive income				
Foreign currency translation adjustment	55,565	33,298	(79,411)	(12,170)
Total comprehensive loss	(761)	(90,536)	(231,103)	(35,415)
Less: total comprehensive income/(loss) attributable to non-controlling interests shareholders	3,362	1,928	(5,346)	(819)
Total comprehensive loss attributable to YUNJI INC.	<u>(4,123)</u>	<u>(92,464)</u>	<u>(225,757)</u>	<u>(34,596)</u>
Net loss attributable to ordinary shareholders	(2,308,010)	(1,657,775)	(146,346)	(22,426)
Weighted average number of ordinary shares used in computing net loss per share, basic and diluted	<u>1,165,136,438</u>	<u>1,818,487,917</u>	<u>2,125,906,398</u>	<u>2,125,906,398</u>
Net loss per share attributable to ordinary shareholders				
- Basic	(1.98)	(0.91)	(0.07)	(0.01)
- Diluted	(1.98)	(0.91)	(0.07)	(0.01)

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(All amounts in thousands, except for share and per share data, unless otherwise noted)

	Ordinary share (US\$0.000005 par value)		Additional paid-in capital	Statutory reserve	Accumulated other comprehensive income	Accumulated deficit	Total Yunji Inc. shareholders' deficit	Non- controlling interest	Total shareholders' deficit
	Number of Shares issued	Amount RMB							
Balance as of January 1, 2018	1,268,000,000	—	—	4,227	—	(1,922,828)	(1,918,601)	—	(1,918,601)
Net loss	—	—	—	—	—	(59,688)	(59,688)	3,362	(56,326)
Foreign currency translation adjustments	—	—	—	—	55,565	—	55,565	—	55,565
Accretion on convertible redeemable preferred shares to redemption value	—	—	(54,193)	—	—	(2,133,440)	(2,187,633)	—	(2,187,633)
Appropriation to statutory reserves	—	—	—	4,277	—	(4,277)	—	—	—
Issuance of ordinary shares at par value	—	36	—	—	—	—	36	—	36
Deemed dividend from Preferred Shareholders (Note 23)	—	—	(107)	—	—	107	—	—	—
Capital injection from non-controlling interests	—	—	—	—	—	—	—	3,000	3,000
Re-designation to Series A convertible redeemable preferred shares from Initial Ordinary Shareholders' contribution, including beneficial conversion feature (Note 23)	(116,600,000)	—	—	—	—	(60,796)	(60,796)	—	(60,796)
Share based compensation	—	—	54,300	—	—	—	54,300	—	54,300
Balance as of December 31, 2018	<u>1,151,400,000</u>	<u>36</u>	<u>—</u>	<u>8,504</u>	<u>55,565</u>	<u>(4,180,922)</u>	<u>(4,116,817)</u>	<u>6,362</u>	<u>(4,110,455)</u>

YUNJI INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
 (All amounts in thousands, except for share and per share data, unless otherwise noted)

	Ordinary share (US\$0.000005 par value)		Treasury stock		Additional paid-in capital	Statutory reserve	Accumulated other comprehensive income	Accumulated deficit	Total Yunji Inc. shareholders' deficit	Non- controlling interest	Total shareholders' deficit
	Number of Shares issued	Amount RMB	Number of Shares	Amount RMB							
Balance as of January 1, 2019	1,151,400,000	36	—	—	—	8,504	55,565	(4,180,922)	(4,116,817)	6,362	(4,110,455)
Net loss	—	—	—	—	—	—	—	(125,762)	(125,762)	1,928	(123,834)
Foreign currency translation adjustments	—	—	—	—	—	—	33,298	—	33,298	—	33,298
Accretion on convertible redeemable preferred shares to redemption value	—	—	—	—	(36,494)	—	—	(1,495,519)	(1,532,013)	—	(1,532,013)
Appropriation to statutory reserves	—	—	—	—	—	3,129	—	(3,129)	—	—	—
Issuance of ordinary shares upon Initial Public Offering (Note 22)	112,174,470	4	—	—	737,293	—	—	—	737,297	—	737,297
Conversion of redeemable preferred shares (Note 22)	895,216,752	30	—	—	6,446,030	—	—	—	6,446,060	—	6,446,060
Repurchasing common stock (Note 22)	—	—	(33,829,860)	(117,371)	—	—	—	—	(117,371)	—	(117,371)
Issuance of ordinary shares due to the exercise of share option (Note 24)	—	—	1,407,920	5,769	(4,689)	—	—	—	1,080	—	1,080
Issuance of restricted shares (Note 24)	—	—	3,036,290	14,933	(14,933)	—	—	—	—	—	—
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	2,400	2,400
Share based compensation	—	—	—	—	128,197	—	—	—	128,197	—	128,197
Balance as of December 31, 2019	<u>2,158,791,222</u>	<u>70</u>	<u>(29,385,650)</u>	<u>(96,669)</u>	<u>7,255,404</u>	<u>11,633</u>	<u>88,863</u>	<u>(5,805,332)</u>	<u>1,453,969</u>	<u>10,690</u>	<u>1,464,659</u>

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
 (All amounts in thousands, except for share and per share data, unless otherwise noted)

	Ordinary share (US\$0.000005 par value)		Treasury stock		Additional paid-in capital	Statutory reserve	Accumulated other comprehensive income	Accumulated deficit	Total Yunji Inc. shareholders' deficit	Non- controlling interest	Total shareholders' deficit
	Number of Shares issued	Amount RMB	Number of Shares	Amount RMB							
Balance as of											
January 1, 2020	2,158,791,222	70	(29,385,650)	(96,669)	7,255,404	11,633	88,863	(5,805,332)	1,453,969	10,690	1,464,659
Net loss	—	—	—	—	—	—	—	(146,346)	(146,346)	(5,346)	(151,692)
Foreign currency translation adjustments	—	—	—	—	—	—	(79,411)	—	(79,411)	—	(79,411)
Appropriation to statutory reserves	—	—	—	—	—	6,467	—	(6,467)	—	—	—
Repurchasing common stock (Note 22)	—	—	(6,246,410)	(23,171)	—	—	—	—	(23,171)	—	(23,171)
Issuance of ordinary shares due to the exercise of share option (Note 24)	—	—	9,151,290	31,489	(23,485)	—	—	—	8,004	—	8,004
Issuance of restricted shares (Note 24)	—	—	954,960	3,149	(3,149)	—	—	—	—	—	—
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	2,300	2,300
Share based compensation	—	—	—	—	98,378	—	—	—	98,378	—	98,378
Disposal of a subsidiary	—	—	—	—	—	(5,476)	—	6,060	584	(3,583)	(2,999)
Dividend to non-controlling interest shareholders	—	—	—	—	—	—	—	—	—	(1,200)	(1,200)
Balance as of December 31, 2020	<u>2,158,791,222</u>	<u>70</u>	<u>(25,525,810)</u>	<u>(85,202)</u>	<u>7,327,148</u>	<u>12,624</u>	<u>9,452</u>	<u>(5,952,085)</u>	<u>1,312,007</u>	<u>2,861</u>	<u>1,314,868</u>

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(All amounts in thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net loss	(56,326)	(123,834)	(151,692)	(23,245)
Adjustments to reconcile net loss to net cash generated from/(used in) operating activities:				
Depreciation and amortization	9,306	19,888	21,054	3,228
Shared-based compensation	54,300	128,197	98,378	15,077
Loss/(gain) from disposal of property, equipment and software	871	(1,518)	674	105
Equity in (income)/loss of affiliates	(2,992)	3,221	3,834	586
Changes in fair value for equity securities with readily determinable fair value	—	(68,555)	53,683	8,227
Inventory write-downs	2,540	3,608	40,609	6,224
Foreign exchange loss	190	13,706	(6,417)	(983)
Amortization of right of use assets	—	19,430	15,732	2,411
Change in estimate of refund payable to members	—	(379,370)	(23,521)	(3,605)
Loss on disposal of long-term investments and the subsidiary	—	—	1,610	247
Allowance for credit losses	—	—	13,089	2,006
Cash dividend received	—	190	204	31
Deferred income tax	(13,067)	(30,020)	28,840	4,420
Changes in operating assets and liabilities:				
Increase in accounts receivable	(6,658)	(4,525)	(154,413)	(23,665)
(Increase)/decrease in inventories	(345,305)	243,613	251,998	38,620
Increase in advance to suppliers	(25,285)	(38,773)	(16,547)	(2,536)
(Increase)/decrease in prepaid expenses and other current assets	(184,341)	60,654	78,143	11,976
Increase in other non-current assets	—	(278)	(4,867)	(746)
Decrease/(increase) in amounts due from related parties	773	(6,453)	1,793	275
Increase/(decrease) in accounts payable	662,249	(674,414)	(205,824)	(31,544)
Increase in refund payable to members	248,081	10,229	1,036	159
Increase/(decrease) in incentive payables to members	182,105	(37,459)	(72,316)	(11,083)
Increase/(decrease) in member management fees payable	8,417	(30,029)	(32,514)	(4,983)
Increase/(decrease) in deferred revenue	223,424	(365,147)	(130,853)	(20,054)
Increase in amount due to related parties	8,248	6,851	4,693	719
Increase/(decrease) in other payable and accrued liabilities	116,507	133,972	(77,920)	(11,942)
Net cash generated from/(used in) operating activities	<u>883,037</u>	<u>(1,116,816)</u>	<u>(261,514)</u>	<u>(40,075)</u>

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020
(All amounts in thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	
	RMB	RMB	RMB	US\$
Cash flows from investing activities:				
Purchase of property, equipment and software	(28,731)	(28,184)	(84,403)	(12,938)
Proceeds from disposal of property, equipment and software	17	3,041	1,845	283
Cash paid for short term investments	(11,539,398)	(4,793,867)	(1,774,781)	(271,998)
Cash received from maturity of short-term investments	11,124,565	5,028,793	2,492,613	382,010
Cash paid to merchants for factorings services	—	(42,467)	(57,913)	(8,876)
Cash received from merchants for factorings services	—	10,000	36,407	5,580
Cash paid for loans provided to third parties	—	(171,855)	(93,755)	(14,369)
Cash received from repayment of loans provided to third parties	—	—	61,869	9,482
Cash received from disposal of long-term investments	—	—	3,344	512
Impact to cash resulting from deconsolidation of a subsidiary	—	—	(7,144)	(1,095)
Cash paid for long-term investments	(14,500)	(120,944)	(27,067)	(4,148)
Net cash (used in)/generated from investing activities	<u>(458,047)</u>	<u>(115,483)</u>	<u>551,015</u>	<u>84,443</u>

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

YUNJI INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020
(All amounts in thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	
	RMB	RMB	RMB	US\$
Cash flows from financing activities:				
Proceeds from issuance of convertible redeemable preferred shares, net of issuance costs	744,921	—	—	—
Proceeds from issuance of ordinary shares upon Initial Public Offering, net of issuance costs	—	737,297	—	—
Net proceeds from exercise of share options	—	1,080	6,995	1,072
Cash paid for repurchase of common stocks	—	(117,371)	(23,171)	(3,551)
Capital injection from non-controlling shareholders	3,000	2,400	2,300	352
Net cash generated from/(used in) financing activities	<u>747,921</u>	<u>623,406</u>	<u>(13,876)</u>	<u>(2,127)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	34,594	11,390	(53,624)	(8,217)
Net increase/(decrease) in cash, cash equivalents and restricted cash	<u>1,207,505</u>	<u>(597,503)</u>	<u>222,001</u>	<u>34,024</u>
Cash, cash equivalents and restricted cash at beginning of the year	<u>357,741</u>	<u>1,565,246</u>	<u>967,743</u>	<u>148,313</u>
Cash, cash equivalents and restricted cash at the end of the year	<u>1,565,246</u>	<u>967,743</u>	<u>1,189,744</u>	<u>182,337</u>
Supplemental disclosure of cash flow information				
Cash paid for income tax	18,978	13,413	4,251	651
Supplemental schedule of non-cash investing and financing activities				
Accretion on convertible redeemable preferred shares to redemption value	2,187,633	1,532,013	—	—
Re-designation to Series A convertible redeemable preferred shares from Initial Ordinary Shareholders' contribution, including beneficial conversion feature	60,796	—	—	—
Deemed dividend from convertible redeemable preferred shareholders	(107)	—	—	—
Issuance of Series B convertible redeemable preferred shares to the funder with no consideration	Note 23 6,421	—	—	—
Payable for capital expenditure	209	94	—	—
Net settlement between factoring receivables and payables	—	15,901	23,507	3,603
	As of December 31,			
	<u>2018</u>	<u>2019</u>	<u>2020</u>	
	RMB	RMB	RMB	US\$
Cash and cash equivalents	1,519,146	883,369	1,063,900	163,050
Restricted cash (Note 2.9)	46,100	84,374	125,844	19,287
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>1,565,246</u>	<u>967,743</u>	<u>1,189,744</u>	<u>182,337</u>

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

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION

(a) Principal activities

Yunji Inc. (“Yunji”, or “the Company”) was incorporated under the laws of the Cayman Islands in November 2017, as an exempted company with limited liability.

The Company, through its subsidiaries, consolidated variable interest entities (“VIEs”) and VIE’s subsidiaries (collectively, the “Group”), offers a selection of high-quality products covering a broad range of categories at attractive prices through its e-commerce platform, Yunji App. In 2019, the Company integrated its original two e-commerce platforms, Yunji VIP App and Yunji Flagship App into one platform, Yunji App, with both basic features for all its users and exclusive features for the members of the Group’s membership program. Starting from first quarter of 2019, the Group started to operate Yunji App as a marketplace platform for third party merchants to sell their merchandise to Yunji App users. Starting from third quarter of 2020, the Group expanded to operate its business, including marketplace, on a diverse range of sales channels and on other platforms. The Group’s principal operation and geographic market is in the People’s Republic of China (“PRC”).

On May 3, 2019, the Company completed its initial public offering (IPO) of 11,000,000 American Depositary Shares (“ADSs”), each representing ten Class A ordinary shares of the Company, at the price of US\$11.00 per ADS. On June 4, 2019, the Company’s underwriters exercised their over-allotment option to purchase an additional 217,447 ADSs. The Company received US\$109 million (equivalent to RMB 737 million) of proceeds after deducting underwriting discounts commissions and other offering expense from its IPO and related over-allotment option arrangement. Immediately prior to the completion of the IPO, all classes of preferred shares of the Company, which were originally classified as Mezzanine Equity, were converted and re-designated as 895,216,752 Class A ordinary shares on a one-for-one basis.

(b) History of the Group and Basis of Presentation for the Reorganization

Prior to the incorporation of the Company and starting in May 2015, the Group’s business was carried out under subsidiaries (“Operating Entities”) of Yunji Sharing Technology Co., Ltd. (“Yunji Sharing”), previously known as Hangzhou Bolue Biology Technology Co., Ltd. (“Bolue”). Mr. Xiao Shanglue is the co-founder of Bolue (the “Co-Founder”). The Co-Founder, Mr. Wang Peng, and the other two institutional investors were initial ordinary shareholders of Yunji Sharing (the four parties were collectively named as the “Initial Ordinary Shareholders”). After Yunji Inc. was established in Cayman Island in November 2017, Yunji Holdings Limited (“Yunji Holding”) was incorporated in Hong Kong as a wholly owned subsidiary of the Company, and Hangzhou Yunchuang Sharing Network Technology Co., Ltd. (“Yunchuang Sharing” or “WFOE”) was established as a wholly owned subsidiary of Yunji Holding in the PRC. Thereafter, the new PRC subsidiaries and Zhejiang Yunji Preferred E-commerce Co., Ltd., (“Yunji Preferred”), which is a VIE to hold Internet Content Provider (“ICP”) license, were established. Consequently, a series of contractual agreements were entered into among Yunchuang Sharing, Yunji Sharing, Yunji Preferred and its existing shareholders, including loan agreement, exclusive service agreement, equity interest pledge agreement, exclusive option agreement, proxy agreement and power of attorney, spousal consent letters that irrevocably authorized the existing shareholders designated by Yunchuang to exercise the equity owner’s rights over Yunji Sharing and Yunji Preferred.

In preparation of its initial public offering, the Group underwent a reorganization (the “Reorganization”) starting from December 2017. After the Reorganization, the prior shareholding interests at Yunji Sharing were mirrored to the shareholding interests of the Group.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(b) History of the Group and Basis of Presentation for the Reorganization (continued)

The Group's consolidated financial statements include the financial statements of the Company, its subsidiaries, consolidated VIEs and VIE's subsidiaries.

As of December 31, 2020, the Company's principal subsidiaries are as follows:

Subsidiaries	Place of incorporation	Date of incorporation or acquisition	Percentage of direct or indirect	Principal activities
Yunji Holding Limited	Hong Kong	December 20, 2017	100%	Investment holding
Chuangke Information Technology (Shenzhen) Co., Ltd.	Shenzhen	August 28, 2018	100%	Technology development
Zhejiang Youji Supply Chain Management Co., Ltd.	Huzhou	November 30, 2016	100%	Procurement
Anhui Delue Network Technology Co., Ltd.	Hefei	January 15, 2017	100%	Customer service
Zhejiang Jiyuan Network Technology Co., Ltd.	Hangzhou	August 14, 2018	100%	Procurement
Zhejiang Zhelue Network Technology Co., Ltd.	Hangzhou	May 23, 2016	100%	Sales of merchandise
Hangzhou Jichuang Network Technology Co., Ltd.	Hangzhou	May 23, 2016	100%	Investment holding
Yunji Hongkong Limited	Hong Kong	August 25, 2015	100%	Procurement
Ningbo Yunchu Trading Co., Ltd.	Ningbo	May 10, 2018	100%	Custom clearance
Hangzhou Yunchuang Sharing Network Technology Co., Ltd.	Hangzhou	June 13, 2018	100%	Investment holding
Desking technology (HK) Co., Limited	Hong Kong	July 26, 2016	100%	Investment holding and financing solution
Jironghuishang Commercial Factoring (Tianjin) Co., Ltd	Tianjin	October 16, 2018	100%	Financing solution
Zhejiang Yunxuan Supply Chain Management Co., Ltd	Hangzhou	August 9, 2018	100%	Procurement

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(b) History of the Group and Basis of Presentation for the Reorganization (continued)

As of December 31, 2020, the Company's principal consolidated VIEs and VIE's subsidiaries are as follows:

	Place of incorporation	Date of incorporation or acquisition	Percentage of direct or indirect	Principal activities
<u>VIEs and VIE subsidiaries</u>				
Yunji Sharing Technology Co., Ltd.	Hangzhou	March 5, 2018	100%	Investment holding
Zhejiang Yunji Preferred E-Commerce Co., Ltd.	Hangzhou	June 13, 2018	100%	Investment holding
Zhejiang Jishang Preferred E-Commerce Co., Ltd.	Hangzhou	April 22, 2016	100%	Procurement
Zhejiang Jixiang E-commerce Co., Ltd.	Hangzhou	August 14, 2018	100%	E-Commerce
Hangzhou Fengjing Network Technology Co., Ltd.	Hangzhou	December 18, 2020	100%	Investment holding
Ningbo Meishan Bonded Port Area Jichuang Taihong Venture Capital Partnership (LP) ("Jichuang Taihong")	Ningbo	January 15, 2019	100%	Investment holding
Hangzhou Heyi e-commerce Co., Ltd.	Hangzhou	August 5, 2020	100%	E-Commerce
Anhui Yunhe Network Technology Co., Ltd. ("Yunhe")	Hefei	March 28, 2019	100%	Customer service and Procurement

Starting from third quarter of 2020, Yunhe and Jichuang Taihong, which were originally subsidiaries of the Company, became subsidiaries the Company's consolidated VIEs as a result of equity transactions within the Group.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(c) Consolidated variable interest entities

In order to comply with the PRC laws and regulations which prohibit or restrict foreign investments into companies involved in restricted businesses, the Group operates its Apps and other restricted businesses in the PRC through certain PRC domestic companies, whose equity interests are held by certain management members of the Company or onshore nominees of the Company (“Nominee Shareholders”). The Company obtained control over these PRC domestic companies by entering into a series of Contractual Arrangements with these PRC domestic companies and their respective Nominee Shareholders. These contractual agreements cannot be unilaterally terminated by the Nominee Shareholders or the PRC domestic companies. As a result, the Company maintains the ability to control these PRC domestic companies and is entitled to substantially all of the economic benefits from these PRC domestic companies. Management concluded that these PRC domestic companies are VIEs of the Company, of which the Company is the ultimate primary beneficiary. As such, the Group consolidated financial results of these PRC domestic companies and their subsidiaries in the Group’s consolidated financial statements. The principal terms of the agreements entered into amongst the VIEs, their respective shareholders and the WFOE are further described below.

Loan Agreements

Pursuant to the relevant loan agreements, the WFOE has granted interest-free loans to the relevant Nominee Shareholders of the relevant VIEs with the sole purpose of providing funds necessary for the capital injection to the relevant VIEs. Only the WFOE can require the Nominee Shareholders to settle the loan amount with the equity interests of relevant VIEs, subject to any applicable PRC laws, rules and regulations. The relevant Nominee Shareholder has agreed that any proceeds from sale of the Nominee Shareholder’s equity interest in the relevant VIE should be used to repay the loan amount to the WFOE. The term of the loan agreements is ten years and can be extended with the written consent of both parties before expiration.

Exclusive Option Agreements

Pursuant to the exclusive option agreement, the Nominee Shareholders of the VIEs have granted the WFOE the exclusive and irrevocable right to purchase or to designate one or more person(s) at its discretion to purchase part or all of the equity interests in the VIEs (the “Target Equity”) from the Nominee Shareholders at any time, and the VIEs have granted the WFOE the exclusive and irrevocable right to purchase or to designate one or more person(s) at its discretion to purchase part or all of the assets of the VIEs (the “Target Assets”) at any time. The total transfer price for the Target Equity and/or the Target Assets shall be equal to the loan provided by the WFOE to the Nominee Shareholders under the Loan Agreements. The VIEs and their Nominee Shareholders have agreed that without prior written consent of the WFOE, the Nominee Shareholders shall not sell, transfer, pledge or dispose of their equity interests, and the VIEs shall not sell, transfer, pledge or dispose of their assets, including but not limit to significant assets, significant revenue and significant business. In addition, the VIEs covenant that they shall not declare any dividend or change capitalization structure of the VIEs or enter into any loan or investment agreements.

Proxy Agreement and Power of Attorney

Pursuant to the Proxy Agreement and Power of Attorney, each of the Nominee Shareholders appointed the WFOE as their attorney-in-fact to exercise all shareholder rights under PRC law and the relevant articles of association, including but not limited to, calling and attending shareholders meetings, voting on their behalf on all matters requiring shareholder approval, including but not limited to the appointment and removal of directors, as well as the sale, transfer and disposal of all or part of the equity interests owned by such shareholders. The powers of attorney will remain effective for a given Nominee Shareholders until such shareholder ceases to be a shareholder of the relevant VIE or otherwise instructed by the WFOE.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(c) Consolidated variable interest entities (continued)

Exclusive Service Agreement

Pursuant to the exclusive service agreement, the WFOE has agreed to provide to the VIEs services, including, but not limited to, development, maintenance and update of technology, design, installation, daily management, maintenance and updating of the network system, hardware design, and marketing. The VIEs shall pay to the WFOE service fees determined by the WFOE in its sole discretion. The agreement has a term of 10 years and shall automatically renew at the end of each term for a further term of ten years, unless otherwise terminated by the WFOE in its sole discretion with 30 days' prior written notice.

Equity Interest Pledge Agreements

Pursuant to the relevant equity interest pledge agreements, the Nominee Shareholders of the VIEs have pledged 100% equity interests in relevant VIEs to the WFOE to guarantee performance by the Nominee Shareholders of their obligations under the exclusive option agreements, the proxy agreement and power of attorney and the loan agreements, as well as the performance by the VIEs of their obligations under the exclusive option agreements and the exclusive service agreements. All of the equity interest pledge agreements shall remain valid until the pledges are released. In the event of a breach by the VIEs or any of their Nominee Shareholders of contractual obligations under the exclusive option agreements, the proxy agreement and power of attorney, the exclusive service agreements, the loan agreements and the equity interest pledge agreements, as the case may be, the WFOE, as pledgee, will have the right to dispose of the pledged equity interests in the relevant VIE and will have priority in receiving the proceeds from such disposal. The Nominee Shareholders of the VIEs also covenant that, without the prior written consent of the WFOE, they will not dispose of, create or allow any encumbrance on the pledged equity interests. In October and December 2018, the equity pledge registrations of Yunji Preferred and Yunji Sharing with the relevant office of the State Administration for Market Regulation were completed, respectively. The equity pledge registrations of Hangzhou Chuanchou and Hangzhou Fengjing are in the process of application.

Spousal Consent Letters

Pursuant to the Spousal Consent Letters, each Nominee Shareholder (except for Mr. Wenwei Shu, the shareholder of both Hangzhou Chuanchou and Hangzhou Fengjing, who has no spouse yet), who is a natural person, and his or her spouse unconditionally and irrevocably agreed that the equity interests in the VIEs held by such Nominee Shareholder will be disposed of pursuant to the equity interest pledge agreements, the exclusive option agreements, the loan agreement and the proxy agreement and power of attorney. Each of their spouses agreed not to assert any rights over the equity interests in the VIEs held by their respective spouses. In addition, in the event that any spouse obtains any equity interests in any VIE held by his or her spouse for any reason, he or she agreed to be bound by the contractual arrangements.

(d) Risks in relations to the VIE structure

The following table set forth the assets, liabilities, results of operations and changes in cash, cash equivalents and restricted cash of the consolidated VIEs and their subsidiaries taken as a whole, which were included in the Group's consolidated financial statements with intercompany transactions eliminated (It should be noted that the VIEs were not established until 2018 as the Reorganization occurred. The following disclosures present the operations and financial positions of the businesses that currently constitute the VIE entities as of and for the respective periods.):

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(d) Risks in relations to the VIE structure (continued)

	As of December 31,	
	2019	2020
	RMB	RMB
Cash and cash equivalents	139,323	137,994
Restricted cash	80,289	125,844
Accounts receivable, net	5,271	12,204
Advance to suppliers	21,393	18,334
Inventories, net	19,403	3,500
Amounts due from the Group companies (2)	2,872,259	3,909,067
Amounts due from related parties (1)	5,809	6,603
Prepaid expense and other current assets	171,498	195,428
Property, equipment and software, net	30,057	23,698
Long-term investments	—	34,625
Operating lease right-of-use assets	8,774	8,612
Deferred tax assets	58,613	44,674
Other non-current assets	4,804	7,553
Total assets	3,417,493	4,528,136
Accounts payable	326,014	296,640
Deferred revenue	158,942	35,412
Incentive payables to members	—	8,212
Refund payable to members	26,883	4,398
Members management fee payable	13,805	45,841
Other payable and accrued liabilities	282,189	228,321
Amounts due to the Group companies (3)	2,846,591	4,142,953
Amounts due to related parties (1)	6,039	11,483
Operating lease liabilities, current	4,762	5,160
Operating lease liabilities, non-current	3,735	4,265
Deferred Tax Liability	1	—
Total liabilities (4)	3,668,961	4,782,685

(1) Information related to VIEs' transactions with related parties is included in Note 27.

(2) Amounts due from the Group companies primarily consisted of inter-company receivables for the sales of goods and the rendering of services made by the VIEs and their subsidiaries on behalf of other Group companies.

(3) Amounts due to the Group companies primarily consisted of inter-company payables for the purchase of goods and services made by other Group companies on behalf of the VIEs and their subsidiaries.

(4) Amounts of the consolidated VIEs and VIEs' subsidiaries without recourse to the primary beneficiary is RMB 818,634 and RMB 635,467 as of December 31, 2019 and 2020, respectively

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(d) Risks in relations to the VIE structure (continued)

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Total revenues	2,551,221	4,570,774	3,122,086
Cost of revenues	(593,605)	(2,550,386)	(1,693,547)
Net (loss)/income	(364)	16,071	6,826
Net cash generated by/(used in) operating activities	778,728	(1,019,175)	61,434
Net cash (used in)/generated by investing activities	(25,014)	440,033	(18,347)
Net cash (used in)/generated by financing activities	(208,982)	—	2,300
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,302)	288	(1,161)
Net increase/(decrease) in cash, cash equivalents and restricted cash	542,430	(578,854)	44,226
Cash, cash equivalents and restricted cash at beginning of year	256,036	798,466	219,612
Cash, cash equivalents and restricted cash at end of year	798,466	219,612	263,838

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

1. PRINCIPAL ACTIVITIES AND ORGANIZATION (CONTINUED)

(d) Risks in relations to the VIE structure (continued)

Under the Contractual Arrangements with the consolidated VIEs, the Company has the power to direct activities of the consolidated VIEs and VIEs' subsidiaries through the Group's relevant PRC subsidiaries, and can have assets transferred freely out of the consolidated VIEs and VIEs' subsidiaries without restrictions. Therefore, the Company considers that there is no asset of the consolidated VIEs and VIEs' subsidiaries that can only be used to settle obligations of the respective VIEs and VIEs' subsidiaries except for registered capital of VIEs and VIEs' subsidiaries amounting to RMB 33,797 and RMB 33,797 as of December 31, 2019 and 2020, respectively. Since the consolidated VIEs and VIEs' subsidiaries are incorporated as limited liability companies under the PRC Law, the creditors of the consolidated VIEs and VIEs' subsidiaries do not have recourse to the general credit of the Company.

The Group believes that the Group's relevant PRC subsidiaries' Contractual Arrangements with the consolidated WFOEs, VIEs and VIEs' subsidiaries and the Nominee Shareholders are in compliance with PRC laws and regulations, as applicable, and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these Contractual Arrangements.

In addition, if the current structure of any of the Contractual Arrangements were found to be in violation of any existing PRC laws, the Company may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Company's business and operating licenses, being required to restructure the Company's operations or terminate the Company's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its operations. In such case, the Company may not be able to operate or control the VIEs and VIEs' subsidiaries, which may result in deconsolidation of the VIEs and VIEs' subsidiaries.

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, the Company cannot be assured that the PRC government authorities will not ultimately take a view that is contrary to the Company's belief and the opinion of its PRC legal counsel. In March 2019, the draft Foreign Investment Law was submitted to the National People's Congress for review and was approved on March 15, 2019, which came into effect from January 1, 2020. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remain unclear under the Foreign Investment Law. Since the Foreign Investment Law is new, there are substantial uncertainties exist with respect to its implementation and interpretation and the possibility that such entities will be deemed as foreign-invested enterprise and subject to relevant restrictions in the future shall not be excluded. If the contractual arrangements establishing the Company's VIE structure are found to be in violation of any existing law and regulations or future PRC laws and regulations, the relevant PRC government authorities will have broad discretion in dealing with such violation, including, without limitation, levying fines, confiscating income or the income of these affiliated Chinese entities, revoking business licenses or the business licenses of these affiliated Chinese entities, requiring the Company and its affiliated Chinese entities to restructure their ownership structure or operations and requiring the Company or its affiliated Chinese entities to discontinue any portion or all of the Company's value-added businesses. Any of these actions could cause significant disruption to the Company's business operations, and have a severe adverse impact on the Company's cash flows, financial position and operating performance. If the imposing of these penalties cause the Company to lose its rights to direct the activities of and receive economic benefits from the VIEs, which in turn may restrict the Company's ability to consolidate and reflect in its financial statements the financial position and results of operations of its VIEs.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of presentation

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

Significant accounting policies followed by the Group in the preparation of its accompanying consolidated financial statements are summarized below.

2.2 Basis of consolidation

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

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to appoint or remove the majority of the members of the board of directors, to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, 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 transactions and balances between the Company, its subsidiaries, VIEs and VIEs’ subsidiaries have been eliminated upon consolidation.

2.3 Non-controlling interests

For the Company’s consolidated subsidiaries, VIEs and VIEs’ subsidiaries, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to the Company as the controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of the Group’s Consolidated Balance Sheets and have been separately disclosed in the Group’s Consolidated Statements of Comprehensive Loss to distinguish the interests from that of the Company.

2.4 Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the balance sheet date, and the reported revenues and expenses during the reporting periods in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group’s consolidated financial statements include, but are not limited to the valuation and recognition of refund payable to members, share-based compensation, reserve for excess and obsolete inventories and credit losses for financial instruments. Estimates are based on historical experiences and on various assumptions that the Group believes are reasonable under current circumstances. As of December 31, 2020, the Group considered the economic implications of the COVID-19 on its significant judgments and estimates. Given that changes in circumstances, facts and experience may cause the Group to revise its estimates, actual results could differ materially from those estimates. Actual results could differ from those estimates.

The estimation of refunds payable to members is based upon the historical data of referral incentives earned by referring members within their estimated active life cycle. On a quarterly basis, the Company revisits the estimation with a consistently applied approach and the most up-to-date data, and any change in accounting estimate will be reflected in relevant revenue streams in current period (Note 14).

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currencies

The Group's reporting currency is Renminbi ("RMB"). The functional currency of the Group's holding entities incorporated in Cayman Islands and Hong Kong, China ("HK") is the United States dollars ("US\$"). The Group's PRC subsidiaries, consolidated VIEs and VIEs' subsidiaries and the other HK subsidiary determined their functional currency to be RMB. The determination of the respective functional currency is based on the criteria of ASC 830, Foreign Currency Matters and is based primarily on the currency the entity conducts its business in.

Transactions denominated in other than the functional currencies are translated into the functional currency of the entity at the exchange rates quoted by authoritative banks prevailing on the transaction dates. Exchange gains and losses resulting from those foreign currency transactions denominated in a currency other than the functional currency are recorded in the Consolidated Statements of Comprehensive Loss. Total exchange loss were RMB 685, RMB 12,397 and RMB 919 for the years ended December 31, 2018, 2019 and 2020, respectively.

The financial statements of the Group are translated from the functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB at the appropriate historical rates. Revenues, expenses, gain and loss are translated into RMB using the periodic average exchange rates. The resulting foreign currency translation adjustments are recorded in other comprehensive income as a component of shareholders' equity. Total foreign currency translation adjustments to the Group's other comprehensive income were a gain of RMB 55,565, RMB 33,298 and a loss of RMB 79,411, for the years ended December 31, 2018, 2019 and 2020, respectively.

2.6 Convenience translation

Translations of the Consolidated Balance Sheets, the Consolidated Statements of Comprehensive Loss and the Consolidated Statements of Cash Flows from RMB into US\$ as of and for the year ended December 31, 2020 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB 6.5250, representing the index rates stipulated by the federal reserve board. 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, 2020, or at any other rate.

2.7 Fair value measurements

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

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

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

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

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

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.7 Fair value measurements (continued)**

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.

Financial assets and liabilities of the Group mainly consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, amounts due from related parties, prepaid expenses and other current assets, equity securities with readily determinable fair values included in long-term investments, accounts payable, amounts due to related parties, accruals and other liabilities. As of December 31, 2019 and 2020, except for short-term investments and equity securities with readily determinable fair values included in long-term investments, the carrying values of cash and cash equivalents, restricted cash, trade receivables, amounts due from related parties, prepayments and other current assets, trade payables, amounts due to related parties, accruals and other liabilities are approximated to their fair values due to the short-term maturity of these instruments. The Group reports short-term investments at fair value and discloses the fair value of these investments based on level 2 measurement, reports equity securities with readily determinable fair values included in long-term investments at fair value based on level 1 measurement (Note 9).

2.8 Cash and cash equivalents

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of three months or less.

2.9 Restricted cash

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the Consolidated Balance Sheets. The Group's restricted cash mainly represents i) security deposits held in designated bank accounts for issuance of bank acceptance and letter of guarantee, ii) deposits held in the Group's own bank accounts designated by the customs authorities that the Group makes for cross-border comprehensive tax for imported merchandise, iii) cash held in the Group's own bank accounts, the use of which is restricted to collecting cash on behalf of the merchants for products sold on Yunji App and transferring these cash receipts to the merchants under the bank's custody. Restricted cash with the restriction period lapsing within one year are classified as current assets in the Consolidated Balance Sheets.

2.10 Short-term investments

Short-term investments are comprised of i) time deposits placed with banks with original maturities longer than three months but less than one year, ii) wealth management products issued by PRC banks or other financial institutions, which contains fixed or variable interest with original maturities within one year. Such investments are generally not permitted to be redeemed early or are subject to penalties for redemption prior to maturities. These investments are stated at fair value. Changes in the fair value are reflected in Financial income/(expense), net in the Consolidation Statements of Comprehensive Loss.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.11 Accounts receivable, net**

Accounts receivables, net mainly represent amounts due from customers, including the funds extended by the Group to qualified customers, including the merchants, through its factoring arrangements (the “factoring receivables”) and are recorded net of allowance for credit losses. As of December 31, 2019 and 2020, the balance of the factoring receivables was RMB 17,041 and RMB 122,089, respectively (Note 5).

Allowance for expected credit losses

Starting from January 1, 2020, the Group adopted ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC Topic 326”), which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. Upon adoption of the new standard on January 1, 2020, there was no material cumulative effect of the adoption.

The Group’s accounts receivable, prepaid expenses and other current assets, amounts due from related parties and other non-current assets are within the scope of ASC Topic 326.

To estimate expected credit losses, the Group has identified the relevant risk characteristics of its customers, the related receivables and other receivables which include size, type of the services, the counterparty or the products the Group provides, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers the past collection experience, current economic conditions, future economic conditions (external data and macroeconomic factors) and changes in the Group’s customer collection trends. This is assessed at each quarter based on the Group’s specific facts and circumstances. No significant impact of changes in the assumptions since adoption.

The following table summarized the details of the Company’s allowance for expected credit losses:

	2018	2019	2020
Balance at beginning of year	—	—	—
Allowance for credit losses	—	—	13,089
Balance at end of year	—	—	13,089

2.12 Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. Write downs of RMB 2,540, RMB 3,608 and RMB 40,609 are recorded in Cost of revenues in the Consolidated Statements of Comprehensive Loss for the years ended December 31, 2018, 2019 and 2020, respectively.

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(All amounts in thousands, except for share and per share data, unless otherwise noted)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.13 Property, equipment and software, net**

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

Category	Estimated useful lives
Leasehold improvement	Shorter of the term of the lease or the estimated useful lives of the assets
Electronic equipment	3 years
Furniture	3 years
Software	3 years
Vehicles	3 years

Repairs and maintenance costs are charged to expenses as incurred, whereas the costs of renewals and betterment that extend the useful lives of property, equipment and software are capitalized as additions to the related assets. The Group recognized the gain or loss on the disposal of property, equipment and software in the Consolidated Statements of Comprehensive Loss.

Construction in progress represents direct costs that are related to the construction of property, equipment and software and incurred in connection with bringing the assets to their intended use. Construction in progress is transferred to specific property, equipment and software items and the depreciation of these assets commences when the assets are ready for their intended use.

2.14 Long-term investments

The Group's investments include equity method investments, equity securities with readily determinable fair values and equity securities without readily determinable fair values.

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

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

Under the equity method, the Group's share of the post-acquisition profits or losses of the equity investees are recorded in Equity in income of affiliates, net of tax in the Consolidated Statements of Comprehensive Loss. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee, if any, represents goodwill and intangible assets acquired. When the Group's share of losses in the equity investee equals or exceeds its interest in the equity investee, the Group does not recognize further losses, unless the Group has incurred obligations or made payments or guarantees on behalf of the equity investee.

Equity securities with readily determinable fair values are measured and recorded at fair value on a recurring basis with changes in fair value, whether realized or unrealized, recorded in Financial income/(expense),net through the Consolidated Statements of Comprehensive Loss.

For other equity investments that are not considered as debt securities or equity securities that have readily determinable fair values and over which the Group has neither significant influence nor control through investments in common stock or in-substance common stock, the Group makes the election for these investments whereby investment is carried at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.15 Impairment of long-lived assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) 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.

2.16 Revenue recognition

The Group adopted ASC Topic 606, "Revenue from Contracts with Customers," for all periods presented. Consistent with the criteria of Topic 606, the Group recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to receive in exchange for those goods or services.

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 is recorded net of value-added tax.

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

Sales of merchandise

The Group primarily sells merchandise through its Yunji App. 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. The cash collected from the sales of merchandise is initially recorded in Deferred revenue 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 revenue is recorded net of value-added tax, discounts, coupons, incentives and return allowances. Return allowances are estimated based on historical experiences and updated at the end of each reporting period.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Revenue recognition (continued)

Membership program

Before January 2020, the Group earns membership fees from its members, who pay a fixed fee in exchange for (1) a merchandise gift package, (2) the right to receive member exclusive discounts for merchandise sold on the Yunji App, (3) access rights to the member-exclusive features on Yunji App, (4) the right to receive units of Yunbi (meaning Yun coin) upon a successful new member referral (“Referral Yunbi”), (5) member exclusive training, and (6) units of Yunbi (“New member Yunbi”). Each of these items represents a separate performance obligation. Yunbi can be used as coupons for the member’s future purchases on Yunji App and therefore reflect material rights. In order to promote its membership program, the Group, at its discretion, allows its users to join the membership program by purchasing any merchandise of equivalent value of the membership fee via Yunji App within a defined period as an alternative way of paying the upfront fixed membership fee, or allows individuals that meet certain requirements to become members without paying membership fee. When users become members in this manner, they are not entitled to the merchandise gift package and member exclusive training. The Group allocates the transaction price to each performance obligation, after taking into consideration expected refunds payable to members (Note 2.17), based on their relative standalone selling price. When the standalone selling price of a performance obligation is not directly observable, it is estimated by the Group by using an expected cost plus a margin approach.

For the merchandise gift package, revenue is recognized when the receipt of the gift package is confirmed by the members, which were RMB 1,197,890, RMB 557,936 and nil for the years ended December 31, 2018, 2019 and 2020, respectively. For the right to receive Referral Yunbi, revenue is recognized when Referral Yunbi is used and redeemed, or upon expiration if not redeemed. For New member Yunbi, revenue is recognized when the New member Yunbi is used and redeemed, or upon expiration if not redeemed. The allocated amounts of the transaction price to the right to receive Referral Yunbi and New Member Yunbi incorporate estimation of breakages based upon historical data, and are deferred on the balance sheet upon the collection of the upfront membership fees, which was RMB 108,634 and RMB159,024, RMB 22,104 and RMB 80,553, and nil, for the years ended December 31, 2018, 2019 and 2020, respectively. For member exclusive training, revenue is recognized when the training courses are delivered over the service period by the third-party vendors engaged by the Group. For the remaining performance obligations, revenue is recognized over the period of the active life cycle of the Group’s members on a straight-line basis. The active life cycle of the Group’s members is estimated based on historical behavior of these members, which is approximately one year.

In addition, when members subsequently purchase merchandise, the members initially pay for their purchases at non-member regular prices, and then are issued refunds equal to the member-exclusive discounts from the Group as a credit upon the members confirming receipt of the merchandise. The Group records such anticipated refunds as a reduction of revenue and discounts payables to the members.

Starting from January 2020, the Group has allowed any user to become its member free of charge for one year by simply registering for an account on Yunji App. When users become members in this manner, they are still entitled to enjoy the right to receive member exclusive discounts for merchandise sold on the Yunji App.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Revenue recognition (continued)

Marketplace

In 2019, the Group launched its marketplace business model, under which the Group operates its e-commerce platform, Yunji App, as a marketplace for third party merchants to sell their merchandise to the Yunji App users. When the transactions are completed on Yunji App, the Group charges merchants commissions at their respective agreed percentage of the amount of merchandise sold by merchants. The Group acts as an agent in these transactions and does not control the underlying merchandise provided by merchants before they are transferred to users, as the Group is not responsible for fulfilling the promise to provide the merchandise to users and has no inventory risk before the merchandise are transferred to the users or after the control is transferred to the users. In addition, the Group has no discretion in establishing prices of the merchandise provided by merchants. Revenues are recognized on a net basis to the extent of the commission the Group earns at the point of users' acceptance of merchandise.

Remaining performance obligations

The remaining performance obligations associated with the Group's sale of merchandise represents the cash collected upfront from the customers for their purchase of merchandise on Yunji App, but the underlying merchandise has not yet been received by the customers, which is included in the presentation of Deferred revenue (Note 12). As of December 31, 2019 and 2020, the remaining performance obligation for sales of merchandise were RMB 129,224 and RMB 40,645, respectively, which are expected to be recognized as revenue when the receipt of merchandise is confirmed by the customers.

Revenue allocated to remaining performance obligations of the Group's membership program represents that portion of the overall transaction price that has been received (or for which the Group has an unconditional right to payment) allocated to obligations under the membership program that the Group has not yet fulfilled, which is included in the presentation of Deferred revenue (Note 12). As of December 31, 2019 and 2020, the aggregate amount of the transaction price allocated to remaining performance obligations were RMB 42,438 and nil, respectively, which are expected to be recognized as revenue within 12 months.

The remaining performance obligations associated with the Group's marketplace revenue represents the portion of commission fee included in the payment collected from the users for their purchase of merchandise on Yunji App on behalf of the merchants, but the underlying merchandise has not yet been received by the users, which is included in the presentation of Deferred revenue (Note 12). As of December 31, 2019 and 2020, the remaining performance obligation for marketplace revenue was RMB 9,800 and RMB 9,113, which are expected to be recognized as revenue when the transactions are completed.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Revenue recognition (continued)

Other goods and services

The Group offers products such as air tickets, tourist attractions tickets, cruise, group tour, hotel reservation and car insurance through Yunji App. The Group presents the revenue generated from such sales on a net basis as the Group does not have control of the goods or services or have the ability to direct the use of the goods or services and obtain substantially all of their benefits. Revenue is recognized when the Group has fulfilled its selling performance obligations on behalf of the principal in the transaction, which is either when the products are accepted by the customer, or once the order of the products become non-cancellable on Yunji App, depending on the terms of the particular agreement.

The Group also offers loans to qualified customers, including the merchants, and charges an interest based on the principal through factoring arrangements. The Group extends loans to merchants for their expected orders in addition to the loans to the same merchants who factored their accounts receivable generated from their transactions completed on Yunji App with recourse. The Group also extends loans to unrelated customers who factored their accounts receivable derived from their own business with recourse. The Group records factoring receivables, which is included in accounts receivable, when the cash is advanced to its customers (Note 2.11). The interests are recognized over the term of loans, normally within one year. From cash flow perspective, when the Group has legal rights to net settle the factoring receivables from merchants with its payable to merchants, the Group settles such factoring receivables with the payables to the same merchant respectively, provided by the legal rights as per agreement between the two parties.

2.17 Refund payable to members

After joining the Group's membership program, members are able to make referrals to other users through their social networks. The Group provides incentives to those referring members by paying a cash refund upon a successful merchandise referral.

Since customers are only able to receive referral incentives after they become members. When the member become a customer of the Group by either paying the membership fees or making purchase of merchandise sold on Yunji App after they register as a member, the incentives related to merchandise referral are considered payments to customers (and are not payment for a distinct good or service) and accounted for as a refund payable to members. Such refunds are estimated at the time the membership fee is received or at the time that the members make merchandise purchases, and recorded as Refund payable to members, and reduce the transaction price (that the Group expects to be entitled to keep) for the membership fee revenue recognition calculation described above accordingly. Any amount of referral incentives expected to be paid in excess of the initial membership fee received is recorded as Refund payable to members (and reduces merchandise revenue subsequently generated from those members) at the time they make subsequent merchandise purchases, up to the amount of the expected future referral incentives.

The estimation of refund payable to members involves the assumption of the members' active life cycle and the expected number of members who will earn referral incentives, based upon the historical data of referral incentives earned by referring members within their active life cycle (Note 2.4). Once the referral incentives are earned by the referring members, the amounts are transferred to the members' individual Yunji App accounts and reclassified from Refund payable to members to Incentive payables to members.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.18 Users incentive programs

The Group grants certain units of Yunbi and other coupons (collectively referred to as coupons), from time to time, to its customers at its discretion in different situations. Yunbi are not redeemable for cash and can be used as a coupon for the customer's future purchase on the Yunji App. The value of one unit of Yunbi is equivalent to one RMB yuan. The coupons granted can be 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 determine 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, it is recognized as a reduction of revenue when they are applied in the future sales. When the coupon is not granted concurrent with a revenue transaction, the Company assesses whether the coupons were granted in exchange for a distinct service at fair value. When the coupons are granted in exchange for a distinct service at fair value, they are recorded as expense upon grant. In this case, the person granted coupons in return for their service activities does not need to be a member. When the coupons are not granted in exchange for a distinct service, they can only be applied to the future purchase of certain specified merchandise. These coupons are not accounted for when they are granted and are recognized as a reduction of revenue when they are applied in future sales.

Starting from 2019, in order to promote its marketplace business, from time to time, the Group at its own discretion issues coupons in various forms to users without any concurrent transactions in place or any substantive action needed from the recipient. These coupons can be used in purchase of goods in a broad range of merchants as an immediate discount of their next purchase, some of which can only be used when the purchase amount exceeds pre-defined threshold. The Group settles with the merchants in cash for the coupons used by the users. As the users are required to make purchases of the merchants' merchandises to redeem the coupons, the Group recognizes the amounts of redeemed coupons as Sales and marketing expenses when the purchases are made.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.19 Cost of revenues

Cost of revenues consists of purchase price of merchandise, inbound shipping charges, write-downs of inventory and member training costs. Inbound shipping charges to receive merchandise from suppliers are included in the inventories and recognized as cost of revenues upon sale of the merchandise to the customers.

2.20 Fulfilment

Fulfilment expenses represent packaging material costs and those costs incurred in outbound shipping, operating and staffing the Group's fulfilment and customer service centers, including costs attributable to buying, receiving, inspecting and warehousing inventories, picking, packaging and preparing customer orders for shipment, processing payment and related transaction costs and responding to inquiries from customers, depreciation expenses, payroll costs including share-based compensation expenses, and other daily expenses which are related to the purchasing functions. Fulfilment costs also contain third party payment transaction fees, such as bank card processing and debit card processing fees.

2.21 Sales and marketing

Sales and marketing expenses comprise primarily of member management fees, promotion expenses, marketplace coupons, payroll costs including share-based compensation expenses, depreciation expenses and other daily expenses which are related to the sales and marketing functions.

The Group engages third party vendors to provide member management services, which are ultimately performed by service managers who enter into employment contract with the third party vendors. Certain of the Group's members (customers) have been engaged by third party vendors to serve as service managers. The Group has concluded that the member management services provided by the service managers, including those who are also members, are for distinct services at fair value, and records the member management fees paid to the third party vendors as Sales and marketing expenses.

2.22 Technology and content

Technology and content expenses are expensed as incurred and primarily consist of payroll costs including share-based compensation expenses, rental expenses, costs associated with the computing, storage and telecommunications infrastructure for internal use that support the Group's system and Yunji App services and other expenses which are related to the technology and content functions, which are responsible for technology research and development and content editing in the Group. The Group accounts for internal use software development costs in accordance with guidance on intangible assets and internal use software. This requires capitalization of qualifying costs incurred during the software's application development stage and to expense costs as they are incurred during the preliminary project and post implementation/operation stages. Costs capitalized for developing such software application were not material for the periods presented.

2.23 General and administrative

General and administrative expenses consist of payroll costs including share-based compensation expenses and other expenses which are related to the general corporate functions, including accounting, finance, tax, legal and human relations, costs associated with use by these functions of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.24 Share-based compensation

The Company grants restricted share units (“RSUs”) and share options of the Company to eligible employees and accounts for these share-based awards in accordance with ASC 718 Compensation — Stock Compensation.

Employees’ share-based awards are measured at the grant date fair value of the awards and recognized as expenses a) immediately at grant date if no vesting conditions are required, or b) using a straight-line method over the requisite service period, which is the vesting period.

For nonemployees’ share-based awards, the Group adopted ASU 2018-07 in 2019, according to ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, it clarifies that equity-classified nonemployee share-based payment awards are measured at the grant date. The definition of the term grant date is amended to generally state the date at which a grantor and a grantee reach a mutual understanding of the key terms and conditions of a share-based payment award. Nonemployees’ are measured at the grant date fair value of the awards and recognized as expenses using a straight-line method over the requisite service period, which is the vesting period.

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

Before the Group’s initial public offering, the fair value of RSUs were assessed using the income approach/discounted cash flow method, with a discount for lack of marketability given that the shares underlying the awards were not publicly traded at the time of grant. This assessment required complex 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 were made. After the Group’s initial public offering, the fair value of the RSUs is determined based on the quoted market price of Yunji’s ordinary shares on the grant date.

In addition, the binomial option-pricing model is used to measure the value of share options. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, actual and projected employee and nonemployee share option exercise behavior, risk-free interest rates and expected dividend yield. Binomial option-pricing model incorporates the assumptions about grantees’ future exercise patterns. The fair value of these awards was determined by management with the assistance from an independent valuation firm using management’s estimates and assumptions.

The assumptions used in share-based compensation expense recognition represent management’s best estimates, but these estimates involve inherent uncertainties and application of management judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period. Moreover, the estimates of fair value of the awards are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive share-based awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company for accounting purposes.

In accordance with ASU 2016-09, the Group made an entity-wide accounting policy election to account for forfeitures when they occur.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries and VIE of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. Total amounts of such employee benefit expenses, which were expensed as incurred, were RMB 299,341, RMB 553,175 and RMB 403,031 for the years ended December 31, 2018, 2019 and 2020, respectively.

2.26 Operating leases

The Company applied ASC 842, Leases, on January 1, 2019 on modified retrospective basis and has elected not to recast comparative periods. The Company determines if an arrangement is a lease at inception. Operating leases are primarily for office and warehouse and are included in Operating lease right of use assets, net, Operating lease liabilities, current and Operating lease liabilities, non-current on its Consolidated Balance Sheets. Operating lease right of use assets represent the Group's right to use an underlying asset for the lease term and Operating lease liabilities represent obligation to make lease payment arising from the lease. The operating lease right of use assets and liabilities are recognized at lease commencement date based on the present value of lease payment over the lease term. As most of the Group's leases do not provide an implicit rate, the Group uses its incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. The Operating lease right of use assets also includes any lease payments made and excludes lease incentives. The Group's lease term may include options to extend or terminate the lease. Renewal options are considered within the Operating lease right of use assets and liabilities when it is reasonably certain that the Group will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For operating lease with a term of one year or less, the Group has elected to not recognize a lease liability or lease right of use asset on its Consolidated Balance Sheets. Instead, it recognizes the lease payment as expense on a straight-line basis over the lease term. Short-term lease costs are immaterial to its Consolidated Statements of Comprehensive Loss. The Group has operating lease agreements with insignificant non-lease components and have elected the practical expedient to combine and account for lease and non-lease components as single lease component.

Upon the adoption of the new lease standard, on January 1, 2019, the Group recognized operating lease assets of RMB 27,653 and total operating lease liabilities of RMB 28,261 (including current liabilities of RMB 11,876) on the Consolidated Balance Sheets. There was no impact to Accumulated deficit at adoption.

2.27 Government grant

Government grants are recognized as Other income, net or as a reduction of specific costs and expenses for which the grants are intended to compensate. Such amounts are recognized in the Consolidated Statements of Comprehensive Loss upon receipts and all conditions attached to the grants are fulfilled.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.28 Income tax

Current income taxes are recorded in accordance with the regulations of the relevant tax jurisdiction. The Group accounts for income taxes under the asset and liability method in accordance with ASC 740, Income Tax. Under this method, deferred tax assets and liabilities are recognized for the tax consequences attributable to differences between carrying amounts of existing assets and liabilities in the financial statements and their respective tax basis, and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in the Consolidated Statements of Comprehensive Loss in the period of change. Valuation allowances are established when necessary to reduce the amount of deferred tax assets if it is considered more likely than not that amount of the deferred tax assets will not be realized.

The Group recognizes in its consolidated financial statements the benefit of a tax position if the tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group estimates its liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Group’s estimates. As each audit is concluded, adjustments, if any, are recorded in the Group’s consolidated financial statements in the period in which the audit is concluded. Additionally, in future periods, changes in facts, circumstances and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. As of December 31, 2019 and 2020, the Group did not have any significant unrecognized uncertain tax positions.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.29 Treasury stocks

The Company accounts for treasury stocks using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury stocks account on the Consolidated Balance Sheets.

2.30 Statutory reserves

The Company's subsidiaries, consolidated 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-owned foreign enterprise have to make appropriations from their after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the 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 consolidated VIEs and VIEs' 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 on an annual basis. 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 respective company.

The use of the statutory surplus fund and discretionary surplus fund are restricted to the offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of employees. None of these reserves are allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2018, 2019 and 2020, profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB 4,227, RMB 3,129 and RMB 6,467 respectively.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.31 Comprehensive loss

Comprehensive loss is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments from shareholders and distributions to shareholders. Comprehensive loss for the periods presented includes net loss and foreign currency translation adjustments.

2.32 Net loss per share

Basic net loss per share is computed by dividing net loss attributable to holders of ordinary shares, considering the accretions to redemption value of the preferred shares, deemed dividend from/to preferred shareholders, including beneficial conversion feature, by the weighted average number of ordinary shares outstanding during the period, if applicable.

Diluted net loss per share is calculated by dividing net loss attributable to ordinary shareholders, as adjusted for the accretion and deemed dividend and allocation of net income related to the preferred shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of shares issuable upon the conversion of the preferred shares using the if-converted method, restricted share units and ordinary shares issuable upon the exercise of outstanding share options 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.

2.33 Segment reporting

ASC 280, Segment Reporting, establishes standards for companies to report in their financial statements information about operating segments, products, services, geographic areas, and major customers.

Based on the criteria established by ASC 280, the Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. As a whole and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. As the Group's long-lived assets are substantially located in the PRC and substantially all the Group's revenue are derived from within the PRC, no geographical segments are presented.

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2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.34 Recent accounting pronouncements**

In December 2019, the FASB issued ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU provides an exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This update also (1) requires an entity to recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (2) requires an entity to evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which goodwill was originally recognized for accounting purposes and when it should be considered a separate transaction, and (3) requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The standard is effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact.

In January 2020, the FASB issued Accounting Standards Update No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarified that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarified that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The standard is effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact.

3. CONCENTRATION AND RISKS**3.1 Concentration of credit risk**

Financial instruments that potentially subject the Group to the concentration of credit risks consist of cash and cash equivalents, restricted cash, and short-term investments. The maximum exposures of such assets to credit risk is their carrying amounts as of the balance sheet dates. The Group deposits its cash and cash equivalents, restricted cash and short-term investments with financial institutions located in jurisdictions where the subsidiaries are located. The Company believes that no significant credit risk exists as these financial institutions have high credit quality.

3.2 Concentration of customers and suppliers

Substantially all revenue was derived from customers located in China. There are no customers or suppliers from whom revenues or purchases individually represent greater than 10% of the total revenues or the total purchases of the Group in any of the periods presented.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. CONCENTRATION AND RISKS (CONTINUED)**3.3 Foreign currency exchange rate risk**

In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the US\$, and the RMB appreciated more than 20% against the US\$ over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the US\$ remained within a narrow band. Since June 2010, the RMB has fluctuated against the US\$, at times significantly and unpredictably. The depreciation of the RMB against the US\$ was approximately 5.0% in 2018. The appreciation of the RMB against the US\$ was approximately 1.6% in 2019. The appreciation of the RMB against the US\$ was approximately 6.5% in 2020. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

4. SHORT TERM INVESTMENT

	As of December 31,	
	2019	2020
	RMB	RMB
Time deposits	593,954	134,146
Wealth management products	180,782	—
	<u>774,736</u>	<u>134,146</u>

The Group's wealth management products mainly consisted of financial products issued by commercial banks in China with a variable interest rate indexed to the performance of underlying assets and a maturity date within one year when purchased or revolving terms. For the years ended December 31, 2018, 2019 and 2020, the weighted average return of the wealth management products were 4.1%, 3.4% and 3.4%, respectively.

5. ACCOUNTS RECEIVABLE, NET

	As of December 31,	
	2019	2020
	RMB	RMB
Factoring receivables	17,041	122,089
Receivables from sales channels on other platforms	—	35,950
Receivables from merchants under marketplace business	3,015	8,439
Receivables from other revenue	8,471	6,858
Less: allowance for credit losses	—	(8,603)
	<u>28,527</u>	<u>164,733</u>

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6. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets consist of the following:

	As of December 31,	
	2019	2020
	RMB	RMB
Prepaid member training costs (1)	36,669	—
Receivables from third-party payment settlement platform (2)	71,202	33,154
Deposits (3)	86,796	62,540
Prepaid rental expenses	617	412
Prepaid advertising expenses	4,085	5,482
Short-term loan receivables (4)	121,949	130,629
Share transfer consideration receivable (5)	97,667	—
VAT-input deductible	115,252	126,455
Staff advance	640	151
Receivables from disposal of a subsidiary (6)	—	26,676
Others	32,555	27,896
Less: allowance for credit losses	—	(2,972)
	<u>567,432</u>	<u>410,423</u>

- (1) The Group engages third party vendors to provide sales and marketing related training to its members, including on-line training courses to facilitate product sales, updated features on Yunji App, etc. According to the member agreement, all members of the Group, except for those joined the Group's membership program without paying upfront membership fee, are eligible to attend the training courses provided by these third party vendors. In case when the Group should make prepayments for the training costs to these third party vendors, the prepaid amounts are amortized over relevant period of the training courses provided by the third party vendors. For the years ended December 31, 2018, 2019 and 2020, member training costs were RMB 423,586, RMB 356,283 and RMB 37,147, presented in Cost of revenues in the Consolidation Statements of Comprehensive Loss.
- (2) Receivables from third-party payment settlement platform represent cash due from the third party on-line payment service providers in relation to their processing of payments to the Group.
- (3) Deposits mainly represent the customs deposits held in customs bank accounts, which were RMB 65,000 and RMB 38,000 as of December 31, 2019 and 2020, respectively.
- (4) Short-term loan receivables represent the principal and interest to be collected on three loans provided by the Group to a customer. As of December 31, 2020, the loans include one principal amount of US\$ 10.3 million (equivalent to RMB 67,206), one principal amount of US\$ 4.7 million (equivalent to RMB 30,667) and the other with principal amount of US\$ 5.0 million (equivalent to RMB 32,625). As of December 31, 2019, the loans include one principal amount of US\$ 10.3 million, which was renewed in 2020, and include the other with principal amount of RMB 50,000. The terms of loans are of one-year term and with fixed annual interest at approximately 4% within the market rate range, and mature within one year. The loans are pledged by gold bullion with value no less than the loan principal provided to this customer, and the loan arrangements were entered into separately from regular sales business with this customer.
- (5) Share transfer consideration receivable represents the consideration to be collected for transferring of a third party company's ADSs. In November 2019, the Group subscribed 820,000 ADSs of a third party company with a total consideration of US\$ 13.94 million upon its initial public offering in NASDAQ. According to a shares transfer agreement that the Group entered into, the Group sold and transferred all these ADSs to another third party with a fixed consideration of US\$ 13.99 million (equivalent to RMB 97.67 million) in December 2019 and the gain of US\$50 was recorded in Financial income, net. The Group received the consideration in January 2020.

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6. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET (CONTINUED)

- (6) In the fourth quarter of 2020, the Group disposed a subsidiary, Wuhan Yunteng Logistics Co., Ltd. (“Wuhan Yunteng”), to a third party for a total cash consideration of RMB 26,676, with a loss of RMB 1.0 million recorded in other non-operating income/(loss) (Note 19).

7. INVENTORIES, NET

	As of December 31,	
	2019	2020
	RMB	RMB
Merchandise and packing materials	428,763	145,773
Less: inventory write-downs	(441)	(10,528)
Inventories, net	<u>428,322</u>	<u>135,245</u>

8. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net, consist of the following:

	As of December 31,	
	2019	2020
	RMB	RMB
Leasehold improvement	29,421	32,417
Electronic equipment	25,990	21,932
Furniture	10,117	6,669
Software	2,441	4,336
Vehicles	1,101	1,101
Construction in progress	3,144	874
Subtotal	<u>72,214</u>	<u>67,329</u>
Less: accumulated depreciation	<u>(26,870)</u>	<u>(41,319)</u>
Property, equipment and software, net	<u>45,344</u>	<u>26,010</u>

Depreciation expenses were RMB 9,306, RMB 18,021 and RMB 21,054 for the years ended December 31, 2018, 2019 and 2020, respectively. No impairment charges were recorded for the years ended December 31, 2018, 2019 and 2020.

As of December 31, 2019 and 2020, the balances of construction in progress were RMB 3,144 and RMB 874 which were primarily relating to the leasehold improvements of office buildings.

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9. LONG-TERM INVESTMENTS

The Group's long-term investments consist of the following:

	As of December 31,	
	2019	2020
	RMB	RMB
Equity method investments	36,588	58,479
Equity securities accounted for under alternative measurement	4,200	5,900
Equity securities with readily determinable fair values	158,072	94,552
Long-term investments	<u>198,860</u>	<u>158,931</u>

Major investments made by the Company during the years ended December 31, 2018, 2019 and 2020 are summarized as follows:

Investments accounted for using equity method

The investments accounted for using equity method represent the Group's equity investment over which the Group is able to exercise significant influence in the form of ordinary shares of the investee. The investments accounted for under equity methods are individually immaterial for the periods presented.

The carry amount and unrealized securities holding gain/ (loss) for the investments under equity method as of December 31, 2020 was as follows,

	Equity method investments
Total value booked under equity method as of December 31, 2018	16,799
Addition	23,200
Dividends received	(190)
Share of cumulative loss for the year ended December 31, 2019	<u>(3,221)</u>
Total value booked under equity method as of December 31, 2019	36,588
Addition	28,883
Dividends received	(204)
Disposal of long-term investments	(2,954)
Share of cumulative loss for the year ended December 31, 2020	<u>(3,834)</u>
Total value booked under equity method as of December 31, 2020	<u>58,479</u>

Equity securities accounted for under alternative measurement

The investments accounted for under alternative measurement represent the Group's equity investment over which the Group is not able to exercise significant influence in the form of ordinary shares of the investee. The equity investments accounted for under alternative measurement are individually immaterial for the periods presented.

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9. LONG-TERM INVESTMENTS (CONTINUED)Equity securities with readily determinable fair values

Investment in GXG

In May 2019, the Group purchased 22,740,000 ordinary shares of a Hong Kong listed Company - GXG (1817. HK) - with a total consideration of US\$ 13 million, and recorded its investment in GXG with initial cost of US\$ 13 million (equivalent to approximately RMB 89,517). As of December 31, 2019 and 2020, based on the market price, the Group re-measured the investment at a fair value of RMB 158,072 and RMB 94,552, respectively, and recorded the unrealized changes in fair value with a gain of RMB 68,555 and a loss of RMB 56,383 in Financial income/(expense), net in the Consolidation Statements of Comprehensive Loss for years ended December 31, 2019 and 2020, respectively. This investment is classified as equity securities with readily determinable fair values.

10. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	As of December 31,	
	2019	2020
	RMB	RMB
Long-term loan receivable (1)	50,278	53,612
Prepayment of an office building (2)	—	78,000
Others	6,003	18,695
Less: allowance for doubtful accounts		(1,514)
	<u>56,281</u>	<u>148,793</u>

- (1) Long-term loan receivable represents the principal and interest to be collected of a loan provided by the Group to a third party. The loan was of principal amount of RMB 50,000, three-year term starting from December 2019, and with a lump sum interest rate of 20% at maturity.
- (2) The Group purchased an office building from a third party and paid the full amount in advance with consideration of USD\$11.25 million (equivalent RMB 78,000). This office building is expected to be used by the Group to relocate its customer service center in the future.

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11. ACCOUNTS PAYABLE

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
Merchandise purchase payables	548,427	292,515
Warehouse and logistic fees payables	48,327	7,512
Payable to merchants (1)	145,205	201,522
	<u>741,959</u>	<u>501,549</u>

- (1) Payable to merchants represents the unpaid balances to the merchants of cash collected by the Group on behalf of the merchants for products sold on Yunji App when the Group is viewed as the agent in the sales arrangement.

12. DEFERRED REVENUE

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
Deferred merchandise revenue	129,224	40,645
Deferred membership program revenue	42,438	—
Deferred marketplace revenue	9,800	9,113
Deferred other revenue	366	1,193
	<u>181,828</u>	<u>50,951</u>

The revenue recognized in the years ended December 31, 2018, 2019 and 2020 that was included in deferred revenue as of the beginning of each respective period were RMB 323,551, RMB 546,975 and RMB 181,828, respectively.

YUNJI INC.

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13. INCENTIVE PAYABLES TO MEMBERS

	As of December 31,	
	2019	2020
	RMB	RMB
Accruals of Yunbi granted under member incentive program	251	—
Discounts and referral incentive payable (1)	384,235	312,170
Total incentive payables to members	<u>384,486</u>	<u>312,170</u>

- (1) Discounts and referral incentive payable represents unpaid balances of discounts granted to members for their self-purchase and referral incentives earned by the members for their referral efforts and is transferred to the members' individual Yunji App accounts. These unpaid balances are maintained collectively in the members' Yunji App accounts and can be withdraw as cash upon the members' requests.

14. REFUND PAYABLE TO MEMBERS

	As of December 31,	
	2019	2020
	RMB	RMB
Refund payable to members	<u>26,883</u>	<u>4,398</u>

Refund payable to members represents the estimated referral incentives expected to be refunded to referring members from the upfront membership fees paid and the merchandise purchases for their own accounts (Note 2.17). The movement of refund payable to members during the periods presented are as follows:

	Refund payable to members
Balance as of December 31, 2017	147,943
Estimated referral incentives to be refunded	626,853
Referral incentives earned (1)	<u>(378,772)</u>
Balance as of December 31, 2018	<u>396,024</u>
Balance as of December 31, 2018	396,024
Estimated referral incentives to be refunded	132,989
Referral incentives earned (1)	<u>(122,760)</u>
Change in estimate (2)	<u>(379,370)</u>
Balance as of December 31, 2019	<u>26,883</u>
Balance as of December 31, 2019	26,883
Estimated referral incentives to be refunded	8,021
Referral incentives earned (1)	<u>(6,985)</u>
Change in estimate (2)	<u>(23,521)</u>
Balance as of December 31, 2020	<u>4,398</u>

- (1) Once the referral incentives are earned by the referring members, the amounts are transferred to the members' individual Yunji App accounts and recorded as Incentive payables to members (Note 13).

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14. REFUND PAYABLE TO MEMBERS (CONTINUED)

- (2) The estimation of refund payable to members is based upon the historical data of referral incentives earned by referring members within their active life cycle. The balance of the payable was RMB 26,883 and RMB 4,398 as of December 31, 2019 and 2020, respectively, and reflected the Company's member's referral behavior in light of its ongoing refinement of its membership enrollment system.

In June 2019, the Company, at its discretion, launched a series of promotion activities which allowed non-member users to join the Group's membership program without having to purchase membership packages. The non-paid membership is available to new members as long as they meet a certain cumulative spending threshold, or certain other requirements, within a given period of time. These promotion activities enlarged the Group's member base in 2019 by attracting more non-member users to become members. It further encouraged an increasing percentage of members to purchase more merchandise to meet the cumulative spending threshold and enjoy the member exclusive discounts under the membership program. Upon the successful launch of these promotion activities, the amount of revenue earned from referring members, and the commissions paid to them, decreased since late of the second quarter of 2019. Starting from January 2020, the Company launched free membership program (Note 2.16) and the refund payable further decreased. Based on these new patterns of activity, and the continuing expansion of the promotion activities, the Company recognized a change in estimate to reduce the Refund Payable to Members by RMB 379,370 and RMB 23,521 during 2019 and 2020, respectively. The adjustment was recorded as an increase in revenue, reflecting the original establishment of the refund payable as a reduction in revenue (as a form of variable revenue consideration). The balance of the refund payable as of December 31, 2019 and 2020 reflected the Company's best estimate of its liability based on historical patterns of earnings and redemptions, after the introduction of the aforementioned promotion activities.

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15. MEMBER MANAGEMENT FEES PAYABLE

	As of December 31,	
	2019	2020
	RMB	RMB
Member management fees payable	78,355	45,841

The Group engages third party vendors to provide management service in the member's community, including organizing product launch events, collecting members or Yunji App users' feedbacks, etc. Member management fees payable represents the Group's unpaid balance of such service fees to the third party vendors. For the years ended December 31, 2018, 2019 and 2020, member management fees were RMB 834,576, RMB 876,769 and RMB 418,194, presented in Sales and marketing expenses in the Consolidation Statements of Comprehensive Loss.

16. OPERATING LEASE

The Company has operating leases primarily for office and operation space. The Company's operating lease arrangements have remaining terms of one year to five years with no variable lease costs.

Operating lease costs were RMB 19,135 and 15,732 for the years ended December 31, 2019 and 2020.

Supplemental cash flow information related to leases were as follows:

	Year Ended	Year Ended
	December 31, 2019	December 31, 2020
	RMB	RMB
Cash paid for amounts included in the measurement of lease liabilities	17,528	14,686
Right-of-use assets obtained in exchange for operating lease liabilities	46,551	—

Supplemental consolidated balance sheet information related to leases were as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Right-of-use assets	43,043	11,324
Operating lease liabilities - current	17,559	6,988
Operating lease liabilities - non-current	27,734	8,309
Total lease liabilities	45,293	15,297
Weighted average remaining lease term	3	1.7
Weighted average discount rate	4.75%	4.75%

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16. OPERATING LEASE (CONTINUED)

Maturities of lease liabilities are as follows:

	<u>As of December 31, 2020</u>
	RMB
2021	7,316
2022	5,392
2023	3,454
2024	61
2025	—
Total operating lease payments	<u>16,223</u>
Less: imputed interest	<u>(926)</u>
Total	<u><u>15,297</u></u>

For the years ended December 31, 2018, the Company recognized lease expense of RMB 17,522 respectively, under ASC 840.

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17. OTHER PAYABLE AND ACCRUED LIABILITIES

	As of December 31,	
	2019	2020
	RMB	RMB
Supplier deposits (1)	86,132	86,759
Merchants deposits (2)	80,643	68,903
Rental fee payables	438	720
IT related service fees	22,937	2,913
Accrued professional fees	8,179	9,106
Salaries and welfare payable	94,973	60,737
Taxes payable	40,498	19,044
Accrued marketing and other operational expenses	13,963	21,576
Others	1,348	10,828
	<u>349,111</u>	<u>280,586</u>

- (1) The deposit obtained from the suppliers is to ensure inventory level ready for the Group to purchase and good product quality under the Group's sales of merchandise business model.
- (2) The deposit obtained from the merchants is to ensure implementation of Yunji App's platform policy and good product quality to be sold by the merchants on Yunji App under the Group's marketplace business model. The deposit can be withdrawn immediately after the merchants terminate its online shop on Yunji App.

18. OTHER OPERATING INCOME

	Year Ended	Year Ended	Year Ended
	December 31,	December 31,	December 31,
	2018	2019	2020
	RMB	RMB	RMB
VAT-in super deduction (1)	—	25,047	4,830
Government grants (2)	7,048	43,599	25,172
Others	—	—	3,216
	<u>7,048</u>	<u>68,646</u>	<u>33,218</u>

- (1) From 2019, in accordance with “the Announcement on Relevant Policies for Deepening the Value-added Tax Reform” and relevant government policies announced by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs of China, one China VIE of the Company, as a consumer service company, is allowed to enjoy additional 10% VAT-in deduction for any services or products it purchased (“VAT-in super deduction”) from April 1, 2019 to December 31, 2021. The VAT-in super deduction obtained is considered as operating given that all VAT-in were derived from the purchases for that VIE's daily operations in nature, and therefore is presented in Other operating income in the Consolidation Statements of Comprehensive Loss.
- (2) Government grants mainly represent cash subsidies received from PRC local governments for companies operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. Starting from January 2020, the Company presents government grants as Other operating income. The relevant item in the prior years of RMB 7,048 and RMB 43,599 for the years ended December 31, 2018 and 2019 are also classified from Other non-operating income/(loss), net, to be in conformity with the current period presentation in the Consolidated Statements of Comprehensive Loss. These cash subsidies were not subject to meeting any specific future conditions.

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19. OTHER NON-OPERATING INCOME/(LOSS), NET

	Year Ended December 31, 2018	Year Ended December 31, 2019	Year Ended December 31, 2020
	RMB	RMB	RMB
Loss on disposal of long-term investments and a subsidiary	—	—	1,610
Others	—	8,497	—
	<u>—</u>	<u>8,497</u>	<u>1,610</u>

20. FINANCIAL INCOME/(EXPENSE), NET

	Year Ended December 31, 2018	Year Ended December 31, 2019	Year Ended December 31, 2020
	RMB	RMB	RMB
Interest income	46,919	52,889	46,667
Interest expense	—	—	(6,383)
Gains/(loss) from fair value change of equity securities with readily determinable fair value (1)	—	68,555	(53,683)
Bank charges	(851)	(444)	(709)
Others	—	370	5,537
	<u>46,068</u>	<u>121,370</u>	<u>(8,571)</u>

- (1) Gain from fair value change of equity securities with readily determinable fair value represents the unrealized changes of fair value of investment in GXG (Note 9).

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21. TAXATION

(a) Value added tax (“VAT”) and surcharges

The Group is subject to statutory VAT rate of 11% prior to May 1, 2018, 10% between May 1, 2018 and April 1, 2019, and 9% since April 1, 2019 for revenues from sales of agricultural products, and 17% prior to May 1, 2018 and 16% between May 1, 2018 and April 1, 2019, and 13% since April 1, 2019 for sales of other products, respectively, in the PRC. The Group is exempted from VAT for revenues from sales of vegetables and contraceptives.

The Group is subject to VAT at the rate of 11% prior to May 1, 2018, 10% between May 1, 2018 and April 1, 2019, and 9% since April 1, 2019 for the logistics services.

(b) Income tax

Cayman Islands

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

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Group’s subsidiaries in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

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21. TAXATION (CONTINUED)

China

On March 16, 2007, the National People’s Congress of PRC enacted a new Enterprise Income Tax Law (“new EIT law”), under which Foreign Investment Enterprises (“FIEs”) and domestic companies would be subject to enterprise income tax at a uniform rate of 25%. The new EIT law became effective on January 1, 2008. In accordance with the implementation rules of EIT Law, a qualified “High and New Technology Enterprise” (“HNTE”) is eligible for a preferential tax rate of 15%. The HNTE certificate is effective for a period of three years. An entity could re-apply for the HNTE certificate when the prior certificate expires.

Zhejiang Jishang Preferred E-Commerce Co., Ltd. (“Jishang Preferred”) obtained its HNTE certificate on November 30, 2018 and was eligible to enjoy a preferential tax rate of 15% from 2018 to 2020 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. From July 2019, Jishang Preferred started to function as a Procurement company within the Group and is not able to continue its status as an HNTE to enjoy a preferential tax rate of 15% since 2019.

The Group’s other PRC subsidiaries, VIEs and VIEs’ subsidiaries are subject to the statutory income tax rate of 25%.

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year (‘Super Deduction’). The additional deduction of 50% of qualified research and development expenses can only be claimed directly in the annual EIT filing and subject to the approval from the relevant tax authorities. Effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their qualified research and development expenses so incurred as tax deductible expenses. The additional deduction of 75% of qualified research and development expenses can be directly claimed in the annual EIT filing.

Withholding tax on undistributed dividends

The new EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “actual 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 EIT Law merely define the location of the “actual management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, property, etc., of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC should be considered a resident enterprise for PRC tax purposes. However, due to limited guidance and implementation history of the EIT Law, there is uncertainty as to the application of the EIT Law. Should the Company be treated as a resident enterprise for PRC tax purposes, the Company will be subject to PRC income tax on worldwide income at a uniform tax rate of 25%.

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21. TAXATION (CONTINUED)*Withholding tax on undistributed dividends (continued)*

The new EIT law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% if the foreign investor owns directly at least 25% of the shares of the FIE and if Hong Kong company is a beneficial owner of the dividend. The State Taxation Administration ("SAT") further promulgated SAT Public Notice [2018] No.9 regarding the assessment criteria on beneficial owner status.

As of December 31, 2019 and 2020, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liabilities on withholding tax were provided as of December 31, 2019 and 2020.

Composition of income tax

The components of loss before tax are as follow:

	Year Ended December 31, 2018 RMB	Year Ended December 31, 2019 RMB	Year Ended December 31, 2020 RMB
Loss before tax			
Loss from PRC entities	(61,767)	(204,937)	(5,399)
Income/(loss) from overseas entities	14,795	67,604	(103,161)
Total loss before tax	<u>(46,972)</u>	<u>(137,333)</u>	<u>(108,560)</u>
	Year Ended December 31, 2018 RMB	Year Ended December 31, 2019 RMB	Year Ended December 31, 2020 RMB
Current income tax expense	25,413	13,300	10,458
Deferred income tax (benefit)/expense	(13,067)	(30,020)	28,840
	<u>12,346</u>	<u>(16,720)</u>	<u>39,298</u>

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21. TAXATION (CONTINUED)

Reconciliation of the differences between statutory tax rate and the effective tax rate

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

	Year Ended December 31, 2018	Year Ended December 31, 2019	Year Ended December 31, 2020
PRC Statutory income tax rate	25%	25%	25%
Effect on tax rates in different tax jurisdiction	3%	8%	-9%
The effect of change in the tax rate of Jishang Preferred	-76%	26%	0%
Difference in EIT rates of PRC entities	9%	0%	0%
Non-deductible expenses	-4%	-2%	-1%
Additional deduction for research and development expenditures	25%	16%	48%
Share-based compensation	-17%	-23%	-23%
Non-taxable income	7%	0%	0%
Permanent book-tax differences	0%	2%	7%
Change in valuation allowance	2%	-40%	-83%
Effective tax rates	<u>-26%</u>	<u>12%</u>	<u>-36%</u>

(c) Deferred tax assets and deferred tax liabilities

The following table sets forth the significant components of the deferred tax assets:

	As of December 31,	
	2019 RMB	2020 RMB
Deferred tax assets		
Net accumulated losses-carry forward	150,990	205,487
Deferred membership program revenue	10,610	—
Refund payable to members	6,721	1,100
Inventory write-downs	110	2,632
Allowance for credit losses	—	3,272
Others	6,961	4,101
Less: valuation allowance	(65,225)	(156,150)
Total deferred tax assets	<u>110,167</u>	<u>60,442</u>

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21. TAXATION (CONTINUED)

(c) Deferred tax assets and deferred tax liabilities (continued)

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>
Deferred tax liabilities		
Prepaid member training costs	9,288	—
Gain or loss from changes in fair values	11,312	2,684
Others	3,104	135
Total deferred tax liabilities	<u>23,704</u>	<u>2,819</u>

Movement of valuation allowance

	<u>Year Ended</u>	<u>Year Ended</u>	<u>Year Ended</u>
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Balance at beginning of the year	(11,153)	(10,004)	(65,225)
Changes of valuation allowance(1)	1,149	(55,221)	(90,925)
Balance at end of the year	<u>(10,004)</u>	<u>(65,225)</u>	<u>(156,150)</u>

- (1) Valuation allowances have been provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's entities' operating history, accumulated deficit, existence of taxable temporary differences and reversal periods. As of December 31, 2019 and 2020, valuation allowances on a large part of deferred tax assets were provided because it was more likely than not that the Group will not be able to utilize tax loss carry forwards generated by certain unprofitable subsidiaries. As of December 31, 2019 and 2020, valuation allowances of RMB 55,221 and RMB 90,925 were provided against deferred tax assets because it was more likely than not that such portion of deferred tax will not be realized based on the Company's estimate of future taxable incomes of all its subsidiaries.

As of December 31, 2020, net operating loss carry forwards from PRC entities will expire as follows:

<u>At December 31,</u>	<u>RMB</u>
2021	41
2022	11,832
2023	484
2024	356,494
2025	258,501
	<u>627,352</u>

As of December 31, 2020, the Group had tax losses carry forwards of approximately RMB 627,352 which mainly arose from its subsidiaries, consolidated VIEs and VIEs' subsidiaries established in the PRC. The tax losses carry forwards from PRC entities will expire during the period from 2021 to 2025.

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22. ORDINARY SHARES

In November 2017, the Company was incorporated as limited liability company with authorized share capital of US\$50 divided into 500,000,000 shares with par value US\$0.0001 each. As of December 31, 2017, 1 ordinary share was issued and outstanding.

In January 2018, the shares were subdivided into 10,000,000,000 shares with par value US\$0.000005 each. 1 ordinary share was subdivided into 20 ordinary shares (the “Share Split”) and was therefore after issued and outstanding.

As of December 31, 2019 and 2020, 20,000,000,000 ordinary shares had been authorized and a total of 2,158,791,222 ordinary shares, consists of 1,208,831,222 Class A ordinary shares and 949,960,000 Class B ordinary shares, had been issued. A total of 2,133,265,412 ordinary shares, consists of 1,183,305,412 Class A ordinary shares and 949,960,000 Class B ordinary shares, had been outstanding as of December 31, 2020. A total of 2,129,405,572 ordinary shares, consists of 1,179,445,572 Class A ordinary shares and 949,960,000 Class B ordinary shares, had been outstanding as of December 31, 2019.

Immediately prior to the completion of the IPO, all classes of preferred shares of the Company were converted and re-designated as 895,216,752 Class A ordinary shares on a one-for-one basis. 201,440,000 ordinary shares of the Company were re-designated as Class A ordinary share and 949,960,000 ordinary shares were re-designated as Class B ordinary shares with super voting power (one share with ten votes). Mr. Xiao Shanglue, founder, chairman and chief executive officer of the Company, will be deemed to beneficially own all of the issued Class B ordinary shares.

On May 3, 2019, the Company completed its IPO on NASDAQ Global Select Market. The Company offered 110,000,000 Class A ordinary shares which represented 11,000,000 ADSs.

Subsequently on June 4, 2019, over-allotment option were electedly exercised and the Company issued additional 2,174,470 shares of Class A Ordinary Shares issued at a price of US\$1.10 per share.

On August 28, 2019, the Company was authorized by the Board of Directors to, from time to time, acquire up to an aggregate of US\$20 million of its shares in the form of ADSs and/or the ordinary shares of the Company over the next six months in the open market and through privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. As of December 31, 2020, the Company cumulatively repurchased 40,076,270 Class A ordinary shares at price of US\$0.40 to \$0.70.

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES

In July 2015, pursuant to an investment agreement, the Company issued 373,000,000 Series Seed Preferred Shares with total cash of RMB50,000, and incurred issuance cost of RMB1,000.

In November 2016 and January 2017, pursuant to an investment agreement, the Company issued 272,600,000 Series A Preferred Shares with total consideration of RMB33,160 and US\$20,000 (RMB 138,532 equivalent) as well as the full exercise of the Series Seed Warrant at fair value of RMB644 and the full exercise of Series A Warrant at fair value of RMB1,754. Total issuance cost in the amount of RMB8,095 was incurred for the Former Series A Capital Contribution, including a finder’s commission of RMB 6,509.

Furthermore, the Company issued 116,600,000 Series A Preferred Shares with the subscription price at US\$0.000005 per share to two of the institutional investors of the Initial Ordinary Shareholders, which was accounted for as a modification/extinguishment to Series A Preferred Shares from the Initial Ordinary Shareholders’ contributions.

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23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

In February 2018, pursuant to a share purchase agreement, the Company issued 110,803,324 shares of Series B Preferred Shares for cash of US\$100,000(RMB 630,010 equivalent). Total issuance cost in the amount of RMB14,062 was incurred for the Series B Preferred Shares, including a finder's commission of US\$2,000 (RMB12,600 equivalent). The Company paid 50% of the commission in cash amounted US\$1,000 and the remaining 50% by issuance of 1,108,033 shares of Series B Preferred Shares for no consideration to the finder, a financial advisor in June 2018. The total of the finder's commission was also recorded as an issuance cost as a deduction of the preferred shares.

In June and November 2018, pursuant to a share purchase agreement, the Company issued 21,105,395 shares of Series B+ Preferred Shares for cash of US\$20,000 (RMB 128,416 equivalent) with issuance cost in the amount of RMB5,867.

The Series Seed, Series A, Series B and Series B+ Preferred Shares are collectively referred to as the "Preferred Shares". All series of Preferred Shares have the same par value of US\$0.000005 per share.

All of Preferred Shares were converted into Class A ordinary shares immediately upon the completion of the Company's initial public offerings on May 3, 2019 (Note 22). Prior to their conversion, Preferred Shares were entitled to certain preference with respect to conversion, redemption, dividends and liquidation.

24. SHARE-BASED COMPENSATION

On December 19, 2017, the Company adopted the 2017 Share Incentive Plan ("the 2017 Plan"), which allows the compensation committee to grant options and restricted share units ("RSU") of the Company to its directors, employees, and etc. (collectively, the "Grantees") to acquire ordinary shares of the Company at an exercise price as determined by the Compensation Committee at the time of grant. The 2017 Plan was amended and restated in its entirety in March 2019 and referred to as the 2019 Plan. The awards granted and outstanding under the 2017 Plan survive the termination of the 2017 Plan and remain effective and binding under the 2019 Plan. According to the 2019 Plan, 227,401,861 ordinary shares were authorized and reserved for the issuance.

Since adoption of the 2017 Plan, the Company granted options and RSUs to employees. All options and RSUs granted have a contractual term of six years from the grant date, and the vest over a period of four years of continuous service, half (1/2) of which vest upon the second anniversary of the stated vesting commencement date and one-fourth (1/4) of the remaining will vest upon the third and fourth anniversaries of the stated vesting commencement date. Under the option plan, options are exercisable subject to the grantee's continuous service.

The Company accounted for the share-based compensation costs on a straight-line bases over the requisite service period for the award based on the fair value on their respectively grant date.

On December 19, 2017, June 30, 2018, November 28, 2018, and January 31, 2019 the Company granted 73,225,200, 12,021,500, 5,540,000 and 4,968,000 stock options to its directors and employees, respectively. In addition, on December 19, 2017, November 28, 2018 and January 31, 2019, the Company granted 5,000,000, 19,800,000 and 14,925,000 RSUs to its directors and employees, respectively. On May 3, 2019, the Company granted 720,000 stock options to its two independent directors. In addition, on May 3, 2019, the Company was authorized by its Board of Directors to grant stock options and RSUs to non-employees under the 2019 Plan, and granted total 10,409,050 stock options and 3,332,040 RSUs to non-employees by batches during the year ended December 31, 2019.

On January 1 2020, the Company granted 356,210 and 49,964,000 RSUs to its two external consultants and employees, respectively. In addition, on July 1, 2020, the Company granted 13,890,000 RSUs to its directors and employees.

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24. SHARE-BASED COMPENSATION (CONTINUED)

(a) Options

The following table sets forth the stock options activity for the years ended December 31, 2018, 2019 and 2020:

	Number of shares	Weighted- average exercise price US\$	Weighted average remaining contractual term	Aggregate intrinsic value 000'US\$
Outstanding as of December 31, 2018	87,112,400	0.12	5.09	60,399
Granted	16,097,050	0.61		
Forfeited	(7,954,980)	0.31		
Exercised	(1,407,920)	0.09		
Outstanding as of December 31, 2019	<u>93,846,550</u>	<u>0.19</u>	<u>3.77</u>	<u>30,442</u>
Granted	—	—		
Forfeited	(16,014,140)	0.11		
Exercised	(9,151,290)	0.10		
Expired	(115,200)	0.14		
Outstanding as of December 31, 2020	<u>68,565,920</u>	<u>0.22</u>	<u>2.65</u>	<u>2,826</u>
Vested and expected to vest as of December 31, 2020	<u>68,565,920</u>			
Exercisable as of December 31, 2020	<u>53,535,110</u>	<u>—</u>	<u>—</u>	<u>—</u>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the underlying stock at each reporting date (December 31, 2019: US\$0.46, December 31, 2020: US\$ 0.19).

The Group uses the Binominal option pricing model to estimate the fair value of stock options. The assumptions used to value the Company's options grants were as follow:

	2019	2020
Exercise price (US\$)	0.1~0.7	N/A
Exercise multiple	2.2~2.8	N/A
Risk-free interest rate	1.68%~2.47%	N/A
Expected term (in years)	6	N/A
Expected dividend yield	—	N/A
Expected volatility	39.91%~41.29%	N/A
Expected forfeiture rate (post-vesting)	0%/5%	N/A
Fair value of the underlying shares on the date of options grants (US\$)	0.46~1.42	N/A
Fair value of share option (US\$)	0.11~1.32	N/A

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24. SHARE-BASED COMPENSATION (CONTINUED)

(a) Options (continued)

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Company has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

Share-based compensation expense is recorded on a straight-line basis over the requisite service period, which is generally four years from the date of grant. The Company recognized share-based compensation expenses of RMB48,298, RMB66,190 and RMB52,870 for share options granted under the 2017 Plan and the 2019 Plan in the Consolidated Statements of Comprehensive Loss for the years ended 2018, 2019 and 2020, respectively.

As of December 31, 2019 and 2020, there was RMB137,487 and RMB40,192, respectively, in total unrecognized compensation expense, related to unvested share options, which is expected to be recognized over a weighted average period of 1.97 and 0.8 years, respectively. The unrecognized compensation expense may be adjusted for future changes in actual forfeitures.

(b) Restricted share units

A summary of activities of the service-based RSUs for the years ended December 31, 2018, 2019 and 2020 is presented below:

	<u>Number of RSUs</u>	<u>Weighted-Average Grant-Date Fair Value US\$</u>
Unvested at December 31, 2018	24,800,000	0.74
Granted	18,257,040	0.68
Vested	(3,036,290)	
Forfeited	(3,185,900)	
Unvested at December 31, 2019	<u>36,834,850</u>	<u>0.76</u>
Granted	64,210,210	0.43
Vested	(954,960)	
Forfeited	(51,629,000)	
Expired	(500,000)	
Unvested at December 31, 2020	<u>47,961,100</u>	<u>0.63</u>

The fair value of each restricted share units granted with service conditions is estimated based on the fair market value of the underlying ordinary shares of the Company on the date of grant.

As of December 31, 2019 and 2020 3,036,290 RSUs and 954,960 RSUs were vested.

For the years ended December 31, 2018, 2019 and 2020, total share-based compensation expenses recognized by the Group for the RSUs granted were RMB6,002, RMB62,007 and RMB45,508, respectively.

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24. SHARE-BASED COMPENSATION (CONTINUED)

(b) Restricted share units (continued)

As of December 31, 2019 and 2020, there was RMB138,441 and RMB112,376 in total unrecognized compensation expense, related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.60 and 2.51 years, respectively.

25. FAIR VALUE MEASUREMENTS

As of December 31, 2019 and 2020, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured or disclosed at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

Description	Fair value as of December 31, 2019 RMB	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
Assets:				
Short-term investments				
Time deposits	593,954	—	593,954	—
Wealth management products	180,782	—	180,782	—
Long-term investments				
Equity securities with readily determinable fair value	158,072	158,072	—	—
Total assets	932,808	158,072	774,736	—

Description	Fair value as of December 31, 2020 RMB	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
Assets:				
Short-term investments				
Time deposits	134,146	—	134,146	—
Long-term investments				
Equity securities with readily determinable fair value	94,552	94,552	—	—
Total assets	228,698	94,552	134,146	—

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates. Following is a description of the valuation techniques that the Group uses to measure the fair value of assets that the Group reports in its Consolidated Balance Sheets at fair value on a recurring basis.

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25. FAIR VALUE MEASUREMENTS (CONTINUED)

Short-term investments

Short-term investment consists of wealth management products and time deposits, which are valued by the Group on a recurring basis. The Group values its short-term wealth management products investments held in certain banks using model-derived valuations based upon discounted cash flow, in which significant inputs, mainly including expected return, are observable or can be derived principally from, or corroborated by, observable market data, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2. The expected return of the financial products were determined based on the prevailing interest rates in the market.

Long-term investments

Equity securities with readily determinable fair values are measured and recorded at fair value on a recurring basis with changes in fair value. The Group values these equity securities at its quoted prices in stock market, and accordingly the Group classifies the valuation techniques that use these inputs as Level 1.

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26. NET LOSS PER SHARE

Basic and diluted net loss per share for each of the years/periods presented are calculated as follows:

	Year Ended December 31, 2018 RMB	Year Ended December 31, 2019 RMB	Year Ended December 31, 2020 RMB
Numerator:			
Net loss attributable to YUNJI INC.	(59,688)	(125,762)	(146,346)
Accretion on convertible redeemable Preferred Shares to redemption value	(2,187,633)	(1,532,013)	—
Re-designation to Series A Preferred Shares from Initial Ordinary Shareholders' contribution, including beneficial conversion feature	(60,796)	—	—
Deemed dividend from convertible redeemable preferred shares holders	107	—	—
Net loss attributable to ordinary shareholders	(2,308,010)	(1,657,775)	(146,346)
Denominator:			
Weighted average number of ordinary shares used in computing net loss per share, basic and diluted	1,165,136,438	1,818,487,917	2,125,906,398
Net loss per share attributable to ordinary shareholders:			
- Basic	(1.98)	(0.91)	(0.07)
- Diluted	(1.98)	(0.91)	(0.07)

Basic net loss per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the period.

For the years ended December 31, 2018, 2019 and 2020, assumed conversion of the Preferred Shares have not been reflected in the dilutive calculations pursuant to ASC 260, "Earnings Per Share," due to the anti-dilutive effect. The effects of all outstanding share options and RSUs have also been excluded from the computation of diluted loss per share for the years ended December 31, 2018, 2019 and 2020 as their effects would be anti-dilutive. For the years ended December 31, 2018, 2019 and 2020, the Company had potential ordinary shares, including non-vested restricted shares, option granted and Preferred Shares respectively. As the Group incurred losses for the years ended December 31, 2018, 2019 and 2020, these potential ordinary shares were anti-dilutive and excluded from the calculation of diluted net loss per share of the Company. The weighted-average numbers of non-vested restricted shares, options granted and Preferred Shares excluded from the calculation of diluted net loss per share of the Company were 20,003,824, 31,314,375 and 859,677,553 as of December 31, 2018, 2,777,428, 27,628,529 and 299,223,134 as of December 31, 2019, nil, 78,973 and nil as of December 31, 2020.

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27. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2020:

Name of related parties	Relationship with the Group
Xiao Shanglue	Founder and CEO of the Group
Small Ye Group	Controlled by Mr. Xiao Shanglue, Founder and CEO of the Group
Wuhan Dahong enterprise management partnership(LP)	Non-controlling interest (prior to disposal of Wuhan Yunteng in 2020)
Hangzhou Jixi Internet Technology Co., Ltd.("Jixi")	An associate of the Group (incorporated in 2018)
Hangzhou Tianshi Technology Co., Ltd ("Tianshi")	An associate of the Group (incorporated in 2017)
Hangzhou Zhangtaihe Health Technology Co., Ltd("Zhangtaihe")	An associate of the Group (incorporated in 2018)
Guangdong Weixin Technology Co., Ltd ("Weixin")	An associate of the Group (incorporated in 2018)
Beijing Siwei Technology and Culture Co., Ltd("Siwei")	An associate of the Group (incorporated in 2018)
Hangzhou Adopt A Cow Biological Technology Co., Ltd ("Zhaomu")	An associate of the Group (incorporated in 2018)
Hangzhou Bixin Biotechnology Co., Ltd.("Bixin")	An associate of the Group (incorporated in 2019)
Hunan Haomei Haomei Cosmetics Co., Ltd.("Haomei")	An associate of the Group (incorporated in 2019)
Ningbo Langfei Life Electric Co., Ltd.("Langfei")	An associate of the Group (incorporated in 2019)
Shenzhen Liumang Yike Food & Beverage Management Co., Ltd.("Liumang Yike")	An associate of the Group (incorporated in 2019)
Guangzhou Misili Personal Care Products Co., Ltd.("Misili")	An associate of the Group (incorporated in 2019)
Shanxi Yunnong Logistic Management Co., Ltd.("Yunnong")	An associate of the Group (incorporated in 2019)
Zhejiang Zhengdao Fengju Supply Chain Management Co., Ltd. ("Zhengdao")	An associate of the Group (incorporated in 2019)
Hangzhou Yuncheng Brand Management Co., Ltd("Yuncheng")	An associate of the Group (incorporated in 2020)
Zhejiang Jimi E-commerce Co., Ltd ("Jimi")	An associate of the Group (incorporated in 2020)
Hangzhou Huaji Brand Marketing Management Co., Ltd ("Huaji")	An associate of the Group (incorporated in 2020)
Zhejiang Jibi Technology Co., Ltd. ("Jibi")	An associate of the Group (incorporated in 2020)
Huzhou Boyun e-commerce Co., Ltd ("Poyun")	An associate of the Group (incorporated in 2020)
Yunmu Dairy (Jiangsu) Co., Ltd ("Yunmu")	An associate of the Group (incorporated in 2020)
Hangzhou Jiao sanitary products Co., Ltd ("Ji' Ao")	An associate of the Group (incorporated in 2020)
Hangzhou Xingsheng Brand Marketing Management Co., Ltd.("Xingsheng")	An associate of the Group (incorporated in 2020)
Hainan Yunding Supply Chain Management Co., Ltd ("Yunding")	An associate of the Group (incorporated in 2020)

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

27. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The Group entered into agreements with aforementioned equity method classified investees as related party transactions, including purchase of merchandise from them and marketplace services provided to them. Details of related party balances and transactions as of December 31, 2018, 2019 and 2020 are as follows:

Advance to related parties and amounts due from related parties

	As of December 31,	
	2019	2020
	RMB	RMB
<i>Advance to related parties</i>		
Weixin	5,799	3,682
<i>Amounts due from related parties</i>		
Wuhan Dahong enterprise management partnership(LP)	20	—
Jixi	1,011	3,012
Yuncheng	—	971
Others	—	176
	1,031	4,159
Total	6,830	7,841

Amounts due to related parties

	As of	
	December 31,	
	2019	2020
	RMB	RMB
Zhaomu	4,888	4,180
Bixin	303	3,423
Jimi	—	2,542
Zhengdao	5,997	2,227
Jixi	—	1,828
Haomei	455	1,703
Small Ye Group	658	967
Huaji	—	889
Tianshi	179	840
Zhangtaihe	359	641
Yunnong	4,681	605
Jibi	—	466
Xingsheng	—	343
Poyun	—	309
Others	776	2,026
	18,296	22,989

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

27. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The terms of the agreements the Group entered into with the related parties are comparable to the terms in arm's-length transactions with third-party customers and vendors.

Transactions with related parties

	Year Ended December 31, 2018	Year Ended December 31, 2019	Year Ended December 31, 2020
	RMB	RMB	RMB
<i>Payment on behalf of the related parties</i>			
Xiao Shanglue	588	—	—
	<u>588</u>	<u>—</u>	<u>—</u>
<i>Purchase of merchandise</i>			
Zhaomu	469	103,269	53,790
Bixin	—	69,311	31,825
Zhengdao	—	31,418	28,372
Yunnong	—	8,006	21,453
Tianshi	39,776	25,295	17,021
Haomei	—	13,443	16,404
Weixin	36,958	79,309	9,214
Siwei	307	5,626	7,710
Yunmu	—	—	4,543
Misili	—	8,230	3,315
Huaji	—	—	2,573
Yuncheng	—	—	2,239
Ji'Ao	—	—	1,712
Yunding	—	—	1,652
Langfei	—	3,507	1,117
Xingsheng	—	—	600
Zhangtaihe	32,110	16,400	482
Small Ye Group	—	3,097	307
Others	—	431	946
	<u>109,620</u>	<u>367,342</u>	<u>205,275</u>

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

27. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Transactions with related parties (continued)

	Year Ended December 31, 2018 RMB	Year Ended December 31, 2019 RMB	Year Ended December 31, 2020 RMB
<i>Marketplace service provided to related parties</i>			
Yuncheng	—	—	2,932
Bixin	—	373	2,759
Jimi	—	—	2,379
Zhangtaihe	—	—	876
Jixi	—	—	574
Jibi	—	—	522
Liumang Yike	—	301	227
Others	—	91	701
	<u>—</u>	<u>765</u>	<u>10,970</u>
<i>Other goods and services provided to related parties</i>			
Yuncheng	—	—	171
Zhaomu	—	—	73
Weixin	—	—	58
Bixin	—	—	31
Others	—	—	60
	<u>—</u>	<u>—</u>	<u>393</u>

28. COMMITMENTS AND CONTINGENCIES

(a) Operating commitments

As of December 31, 2020, the Company had outstanding operating commitments totaling RMB 226, which was the short-term lease payments.

(b) Contingencies

In the ordinary course of business, the Group is from time to time involved in legal proceedings and litigations. Starting in November 2019, the Group and certain of their officers and directors and others have been named as defendants in putative securities class actions. The actions allege that defendants made misstatements and omissions in connection with the initial public offering in May 2019 in violation of the Securities Act of 1933. The cases are still at the preliminary stage, therefore the Group is unable to predict the outcome of these cases, or reasonably estimate a range of possible loss, if any, given the current status of the litigation.

The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. The Group has not recorded material liabilities in this regard as of December 31, 2018, 2019 and 2020.

YUNJI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, unless otherwise noted)

29. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 26, 2021, which is the date these consolidated financial statements are available to be issued.

In January and February 2021, the Company granted total 55,988,000 RSUs under the 2019 Plan to its employees, which is only subject to service conditions. As a result of this RSU grant, the Company estimated total share-based compensation expense of approximately US\$9.6 million to be recorded in its consolidated financial statements over the vesting period of four years starting from 2021.

30. STATUTORY RESERVES AND RESTRICTED NET ASSETS

Pursuant to laws applicable to entities incorporated in the PRC, the Group's subsidiaries and consolidated VIE in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of a company's registered capital, the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. During the years ended December 31, 2018, 2019 and 2020, appropriations to the statutory reserve have been made by the Group, which was RMB 4,277, RMB 3,129 and RMB 6,467, respectively.

In addition, due to restrictions on the distribution of share capital from the Group's subsidiaries and consolidated VIE in PRC and also as a result of these entities' unreserved accumulated losses, total restrictions placed on the distribution of the Group's PRC subsidiaries' and consolidated VIEs' net assets was RMB 229,527, or 17% of the Group's total consolidated net assets as of December 31, 2020.

The Company performed a test on the restricted net assets of consolidated subsidiaries and VIEs in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that it was not applicable for the Company to disclose the financial statements for the parent company.

PROXY AGREEMENT AND POWER OF ATTORNEY

This Proxy Agreement and Power of Attorney (this “**Agreement**”) is entered into as of [Execution Date] by and among the following parties:

- (1) [Name of the WFOE] (the “**WFOE**”);
- (2) [Name of the VIE] (the “**Company**”);
- (3) [Name of the VIE Shareholder(s)] (the “**Shareholder(s)**”). (Each of the WFOE, the Company, and each of the Shareholder(s), a “**Party**”, and collectively, the “**Parties**”.)

RECITALS

- (A) WHEREAS, the Shareholder(s) collectively hold(s) 100% equity interests in the Company.
- (B) WHEREAS, the WFOE and the Company have entered into an exclusive service agreement dated [Execution Date] (the “**Service Agreement**”), pursuant to which the Company shall pay service fees to the WFOE for the service provided by it.
- (C) WHEREAS, the WFOE, the Company, and the Shareholder(s) have/has entered into an equity pledge agreement dated [Execution Date] (the “**Equity Pledge Agreement**”).
- (D) WHEREAS, The WFOE, the Company, and the Shareholder(s) have/has entered into an exclusive option agreement dated [Execution Date] (the “**Exclusive Option Agreement**”).

NOW, THEREFORE, the Parties hereby agree as follows:

AGREEMENT**Section 1**

The Shareholder(s) hereby irrevocably appoint(s) the WFOE as their/its Attorney-in-Fact (the “**Attorney-in-Fact**,” which shall include any substitute attorney-in-fact appointed pursuant to this Agreement) to exercise on its behalf any and all rights that such Shareholder has in respect of its equity interests in the Company conferred by relevant laws and regulations and the articles of association of the Company, including without limitation, the following rights (collectively, the “**Shareholder Rights**”):

- (a) to call and attend shareholders’ meeting of the Company;

- (b) to execute and deliver any and all written resolutions in the name and on behalf of the Shareholder(s);
- (c) to vote by himself/herself or by proxy on any matters discussed on shareholders' meetings, including without limitation, the sale, transfer, mortgage, pledge or disposal of any or all of the assets of the Company;
- (d) to sell, transfer, pledge or dispose of any or all of the equity interests in the Company;
- (e) to nominate, appoint or remove the directors of the Company when necessary;
- (f) to oversee the economic performance of the Company;
- (g) to have full access to the financial information of the Company at any time;
- (h) to file any shareholder lawsuits or take other legal actions against the Company's directors or senior management members when such directors or members are acting to the detriment of the interest of the Company or its Shareholder(s);
- (i) to approve annual budgets or declare dividends; and
- (j) any other rights conferred by the articles of association of the Company or the relevant laws and regulations on the Shareholder(s).

Each Shareholder further agrees and undertakes that without the WFOE's prior written consent, he/she shall not exercise any of the Shareholder Rights.

Section 2

The WFOE agrees to accept the appointment as an Attorney-in-Fact. In addition, the WFOE has the right to appoint, at its sole discretion, a substitute or substitutes to perform any or all of its rights of the Attorney-in-Fact under this Agreement, and to revoke the appointment of such substitute or substitutes. The WFOE has the right to make such appointment or revocation of such appointment without prior notice to the Company or Shareholder(s) or any consent or instruction from the Company or Shareholder(s).

Section 3

The Company confirms, acknowledges and agrees to the appointment of the Attorney-in-Fact to exercise any and all of the Shareholder Rights on behalf of the Shareholder(s). The Company further confirms and acknowledges that any and all acts done or to be done, decisions made or to be made, and instruments or other documents executed or to be executed by the Attorney-in-Fact, shall therefore be as valid and effective as if it is done, made or executed by the Shareholder(s).

Section 4

- (a) Each Shareholder hereby acknowledges that, if the Shareholder increases its equity interest in the Company, whether by subscribing additional amount of equity interests or otherwise, any such additional equity interests acquired by the Shareholder shall be automatically subject to this Agreement and the Attorney-in-Fact shall have the right to exercise the Shareholder Rights as described in Section 1 hereunder with respect to such additional equity interests on behalf of the Shareholder. Likewise, if the Shareholder's equity interest in the Company is transferred to any other party, whether by voluntary transfer, judicial sale, foreclosure sale, or otherwise, any such equity interest in the Company so transferred remains subject to this Agreement and the Attorney-in-Fact shall continue to have the right to exercise the Shareholder Rights with respect to such equity interest in the Company so transferred.
- (b) Furthermore, for the avoidance of any doubt, if any equity transfer to the WFOE, or its affiliates is contemplated under any Exclusive Option Agreement and Equity Pledge Agreement(s) that the Shareholder(s) enters into for the benefits of the WFOE, or its designees (as the same may be amended from time to time), the Attorney-in-Fact shall, on behalf of the Shareholder(s), have the right to sign the equity transfer agreement and other relevant agreements and to perform the Exclusive Option Agreement and the Equity Pledge Agreement(s). If required by the WFOE, the Shareholder(s) shall sign any documents and fix the chops and/or seals thereon and the Shareholder(s) shall take any other actions as necessary for purposes of consummation of the aforesaid equity transfer. The Shareholder(s) shall ensure that such equity transfer be consummated and any transferee shall sign an agreement with the WFOE in a form substantially the same as this Agreement for the same purposes hereof.

Section 5

Each Shareholder further agrees, and undertakes to the WFOE that, if the Shareholder(s) receive(s) any dividends, interest, any other forms of capital distributions, residual assets upon liquidation, or proceeds or consideration from the transfer of equity interest as a result of, or in connection with, such Shareholders' (s) equity interests in the Company, the Shareholder shall, to the extent permitted by applicable laws, remit all such dividends, interest, capital distributions, assets, proceeds or consideration to the WFOE without any compensation.

Section 6

Each Shareholder hereby authorizes the Attorney-in-Fact to exercise the Shareholder Rights according to its own judgment without any oral or written instruction from the Shareholder(s). Each Shareholder undertakes to ratify any acts which the Attorney-in-Fact or any substitutes or agents appointed by the Attorney-in-Fact may lawfully do or cause to be done by the Shareholder(s) pursuant to this Agreement.

Section 7

This Agreement shall become effective as of the date hereof when it is duly executed by the Parties' authorized representatives and shall remain effective as long as the Company exists. The Shareholder(s) shall not have the rights to revise or terminate this Agreement or revoke the appointment of the Attorney-in-Fact without the prior written consent of the WFOE. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their successors and assignees.

Section 8

This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof.

Section 9

This Agreement shall be construed in accordance with and governed by the laws of the China.

Section 10

Any dispute arising from or in connection with this Agreement shall be submitted to China International Economic and Trade Arbitration Commission (CIETAC) for arbitration which shall be conducted in accordance with the CIETAC's arbitration rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon all Parties. The place of arbitration shall be in Beijing.

Section 11

This Agreement shall be executed in [Party number] originals by all Parties, with each Party keeping one original. All originals shall have the same legal effect. The Agreement may be executed in one or more counterparts.

[Signature pages follow]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the WFOE]

Signature:

Name:

Position:

[Signature Page to Proxy Agreement and Power of Attorney]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the VIE]

Signature:

Name:

Position:

[Signature Page to Proxy Agreement and Power of Attorney]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the VIE Shareholder]

Signature:

Name:

Position:

[Signature Page to Proxy Agreement and Power of Attorney]

Power of Attorney

The undersigned, [Name of the VIE Shareholder], a limited liability company established under the laws of the PRC/a Chinese citizen and a holder of [•]% of the registered capital (corresponding to the capital contribution of [•] RMB) in [Name of the VIE] (the “**Company**”) (“**My Shareholding**”), as of [Execution Date], hereby irrevocably authorize [Name of the WFOE] (the “**WFOE**”) to exercise the following rights relating to My Shareholding during the term of this Power of Attorney:

The WFOE is hereby authorized to act on behalf of myself as my exclusive agent and attorney with respect to all matters concerning My Shareholding, including without limitation to: 1) to execute and deliver any and all written resolutions in the name and on behalf of the Shareholder(s); 2) to vote by itself or by proxy on any matters discussed on shareholders’ meetings, including without limitation, the sale, transfer, mortgage, pledge or disposal of any or all of the assets of the Company; 3) to sell, transfer, pledge or dispose of any or all of the equity interests in the Company; 4) nominate, appoint or remove the directors of the Company when necessary; 5) to oversee the economic performance of the Company; 6) to have full access to the financial information of the Company at any time; 7) to file any shareholder lawsuits or take other legal actions against the Company’s directors or senior management members when such directors or members are acting to the detriment of the interest of the Company or its Shareholder(s); 8) to approve annual budgets or declare dividends; and 9) any other rights conferred by the articles of association of the Company and/or the relevant laws and regulations on the Shareholder(s).

Without limiting the generality of the powers granted hereunder, the WFOE shall have the power and authority under this Power of Attorney to execute the Transfer Contracts stipulated in Exclusive Option Agreement, to which I am required to be a party, on behalf of myself, and to perform the terms of the Share Pledge Agreement and Exclusive Option Agreement, both dated the date hereof, to which I am a party.

All the actions associated with My Shareholding conducted by the WFOE shall be deemed as my own actions, and all the documents related to My Shareholding executed by the WFOE shall be deemed to be executed by me. The WFOE has the right to make the aforesaid actions according to its own judgment without my prior consent. I hereby acknowledge and ratify those actions and/or documents by the WFOE.

The WFOE is entitled to re-authorize or assign its rights related to the aforesaid matters to any other person or entity at its own discretion and without giving prior notice to me or obtaining my consent.

Provided that I am a shareholder of the Company, this Power of Attorney shall be irrevocable and continuously effective as of the date of execution, unless written instructions to the contrary are given by the WFOE. Once the WFOE notice me in writing to terminate this Power of Attorney in whole or in part, I will immediately withdraw the entrustment and authorization under this Power of Attorney, and immediately sign a power of attorney in the same format as this Power of Attorney to authorize the same right as provided under this Power of Attorney to other persons nominated by the WFOE.

During the term of this Power of Attorney, I hereby waive all the rights associated with My Shareholding, which have been authorized to the WFOE through this Power of Attorney, and shall not exercise such rights by myself.

[Signature page follow]

[Name of the VIE Shareholder]

Signature:

Name:

Title:

[Signature Page to Proxy Agreement and Power of Attorney]

Schedule of Material Differences

The VIE Shareholder and the VIE as set out below entered into proxy agreement and power of attorney with Hangzhou Yunchuang Gongxiang Network Technology Co., Ltd., the WFOE, using this form, respectively. Pursuant to Instruction ii to Item 601 of Regulation S-K, the Registrant may only file this form as an exhibit with a schedule setting forth the material details in which the executed agreements differ from this form:

No.	Name of VIE Shareholder	Name of Variable Interest Entity (the "VIE")	Version of Proxy Agreement and Power of Attorney	% of VIE Shareholder's Equity Interest in the VIE	Material Differences	Execution Date
1	Xiao Shanglue	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended and Restated Proxy Agreement and Power Of Attorney	99.0099%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.	December 14, 2018
2	Hao Huan	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended and Restated Proxy Agreement and Power Of Attorney	0.9901%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.	December 14, 2018
3	Daqiao Network Technology (Hangzhou) Co., Ltd.	Yunji Sharing Technology Co., Ltd.	Amended and Restated Proxy Agreement and Power Of Attorney	65.5346%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	December 17, 2018

4	Hangzhou Yuepeng Trading Co., Ltd.	Yunji Sharing Technology Co., Ltd.	Amended and Restated Proxy Agreement and Power Of Attorney	28.0862%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	December 17, 2018
5	Deqing Jijie Investment Management Partnership (Limited Partnership)	Yunji Sharing Technology Co., Ltd.	Amended and Restated Proxy Agreement and Power Of Attorney	6.3792%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	December 17, 2018
6	Shu Wenwei	Hangzhou Chuanchou Network Technology Co., Ltd.	Proxy Agreement and Power of Attorney	100%	N/A	October 23, 2020
7	Ding Panyan	Hangzhou Fengjing Network Technology Co., Ltd.	Proxy Agreement and Power of Attorney	60%	N/A	December 18, 2020
8	Shu Wenwei	Hangzhou Fengjing Network Technology Co., Ltd.	Proxy Agreement and Power of Attorney	40%	N/A	December 18, 2020

EQUITY PLEDGE AGREEMENT

This Equity Pledge Agreement (this “**Agreement**”) is entered into as of [Execution Date] by and among the following parties:

- (1) [Name of the WFOE] (the “**Pledgee**”);
- (2) [Name of the VIE] (the “**Company**”);
- (3) [Name of the VIE Shareholder(s)] (the “**Pledgor(s)**”) (Each of the Pledgee, the Company and the Pledgor(s), a “**Party**”, and collectively, the “**Parties**”).

RECITALS

- (A) WHEREAS, the Pledgor(s) hold [•]% equity interest, representing RMB[•] million of the registered capital of the Company;
- (B) WHEREAS, the Pledgee and the Company entered into an exclusive service agreement dated [Execution Date] (the “**Service Agreement**”), pursuant to which the Company shall pay service fees to the Pledgee for the services provided by the Pledgee;
- (C) WHEREAS, the Pledgee, the Pledgor(s), and the Company entered into an exclusive option agreement dated [Execution Date] (the “**Exclusive Option Agreement**”), pursuant to which each of the Pledgor(s) and the other shareholders of the Company agrees to grant the Pledgee an exclusive right to purchase all of the equity interest of the Company held by it on the terms and conditions therein.

NOW, THEREFORE, the Parties hereby agree as follows:

AGREEMENT**1. Principal Agreements**

Each Party acknowledges and confirms that the Principal Agreements for which the security of pledge is provided hereunder include the Service Agreement, the Exclusive Option Agreement, and the agreements to be executed among the Pledgor, the Company and the Pledgee from time to time.

2. The Pledge

- 2.1 The Pledgor(s) hereby unconditionally and irrevocably agree to pledge all of the equity interest of the Company held by it (including any and all interest or dividend accrued on such equity interest) (the “**Pledged Equity**”) to the Pledgee, as a security for the performance of the obligations by the Pledgor(s) and the Company under the Principal Agreements (the “**Pledge**”).

3. The Scope of Pledge

- 3.1 The obligations secured by the Pledge under this Agreement include all obligations of the Pledgor(s) and the Company, including without limitation, loan and the interest (if applicable), all service fees payable to the Pledgee, all indebtedness, obligations and liabilities (including but not limited to any amounts payable to the relevant person), damages (if any), compensation, any fees and expenses for enforcing the creditor's rights and the Pledge (including but not limited to the attorneys' fees, arbitration fees, the assessment and auction fees related to the Pledged Equity) and any other related cost. For the avoidance of doubt, the scope of the Pledge shall not be limited by the amount of the shareholders' capital contribution.

4. The Term of Pledge

- 4.1 The Pledge shall be continuously valid and the term of the Pledge ends at the earliest of the following three dates: (1) the date on which the unpaid secured obligation has been fully settled or otherwise repaid; (2) the date on which the Pledgee exercises the Pledge in accordance with the terms and conditions of this Agreement to fully realize its rights to the secured obligation and the Pledged Equity; or (3) the date on which the Pledgor(s) have/has transferred all of its equity to a third party (natural or legal person) and no longer holds the Company's equity in accordance with the Exclusive Option Agreement.
- 4.2 During the term of the Pledge, in the event the Pledgee or the Company fail to perform any of their respective obligations in accordance with the Principal Agreements, the Pledgee shall have the right to dispose of the Pledged Equity in accordance with the provisions of this Agreement.
- 4.3 The Pledgee shall have the right to collect any and all dividends or other distributable benefits accrued on the equity and distribute or dispose such dividends or other distributable benefits at its sole discretion.

5. Registration

- 5.1 The Company shall upon execution of this Agreement, record the Pledge in the shareholders' register of the Company and provide the shareholder's register to the Pledgee. The parties covenant that the parties hereto have executed and submitted to administration of industry and commerce (the "AIC") an equity interest pledge contract in the form required by the AIC at the location of the Company (the "**AIC Pledge Contract**") to register the Pledge with AIC. For matters not specified in the AIC Pledge Contract, the Parties shall be bound by the provisions of this Agreement. In case of any ambiguities or inconsistencies between the AIC Pledge Contract and this Agreement, provisions of this Agreement shall prevail.

- 5.2 Without limitation to any provision of this Agreement, during the term of the Pledge, the original of the register of members of the Company shall be kept by the Pledgee or its designated person.
- 5.3 With the prior consent of the Pledgee, the Pledgor(s) may increase its capital contribution to the Company, provided that any capital contribution by the Pledgor(s) to the Company shall be subject to this Agreement and any such capital increase shall be part of the Pledged Equity. The Company shall immediately amend the register of member and register the change to the Pledge with the AIC pursuant to this Section 5 within five (5) working days after the increase of capital contribution.

6. The Pledgors'('s) Representations and Warranties

- 6.1 The Pledgor(s) are/is the sole legal owner(s) of the Pledged Equity.
- 6.2 No security interest or other encumbrance has been created on the Pledged Equity.
- 6.3 The Company is a limited liability company established and validly existing under the PRC laws. The registered capital of the Company is RMB[•] million.

7. The Pledgors'('s) Covenants and Further Assurance

- 7.1 The Pledgor(s) hereby covenant to the Pledgee, that during the term of this Agreement, the Pledgor(s) shall:
- 7.1.1 without the Pledgee's prior written consent, not transfer the Pledged Equity, create or permit to create any security interest or other encumbrance on the Pledged Equity, or dispose of the Pledged Equity in any other means, except for the performance of the Exclusive Option Agreement;
- 7.1.2 comply with any or all laws and regulations applicable to the Pledge, and within five (5) working days of receipt of any notice, order or recommendation issued or prepared by relevant competent authorities regarding the Pledge, provide the aforementioned notice, order or recommendation to the Pledgee, and shall comply with the requirements set forth in the aforementioned notice, order or recommendation, or submit claims and representations with respect to the aforementioned matters upon the Pledgee's reasonable request or with consent of the Pledgee;
- 7.1.3 promptly notify the Pledgee of any event or notice received that may have an impact on Pledgee's rights to the Pledged Equity or any portion thereof or other obligations of the Pledgor(s) arising out of this Agreement.
- 7.2 The Pledgor(s) agree that the rights acquired by the Pledgee in accordance with this Agreement with respect to the Pledge shall not be interrupted or harmed by the Company, the Pledgor(s) or any heirs or representatives of the Pledgor(s) or any other persons (collectively, the "**Relevant Persons**") through any legal proceedings.

- 7.2.1 Without the prior written consent of the Pledgee, the Relevant Persons shall not in any manner supplement, change or amend the articles of association and bylaws of the Company, increase or decrease its registered capital, or change its structure of registered capital in other manners;
- 7.2.2 Without the prior written consent of the Pledgee, after the execution of this Agreement, the Relevant Persons shall not in any manner sell, transfer, pledge or dispose any assets of the Company or any of its subsidiaries or any statutory or beneficiary interest derived from the business or income of the Company and shall not create any relevant security interest.
- 7.2.3 Without the prior written consent of the Pledgee, the Relevant Persons shall ensure that the Company shall not in any manner distribute dividends to its shareholder(s), make assets distributions or conduct capital reduction or initiate liquidation procedures or make any other distributions. Any distributions, including without limitation, the distributed assets or the residual assets in liquidation shall be deemed as part of the Pledge; or
- 7.2.4 Without the prior written consent of the Pledgee, the Relevant Persons shall not take actions which result in or may result in the decrease of value of Pledged Equity or jeopardize the validity of Pledge under this Agreement. In the event that the value of Pledged Equity decreases significantly and impairs the rights of the Pledgee, the Relevant Persons shall notify the Pledgee immediately, provide other assets as security as reasonably requested by and to the satisfaction of the Pledgee, and take necessary actions to resolve the foresaid events or reduce their adverse impact.
- 7.3 To protect or perfect the security interest granted by this Agreement for the payment obligation under the Principal Agreements, the Pledgor(s) hereby undertake(s) to execute in good faith and to cause other parties who have interests in the Pledge to execute all certificates, agreements, deeds and/or covenants required by the Pledgee. The Pledgor(s) also undertake(s) to perform and to cause other parties who have interests in the Pledge to perform actions required by the Pledgee, to facilitate the exercise by the Pledgee of its rights and authority granted thereto by this Agreement, and to enter into all relevant documents regarding ownership of the Pledged Equity with the Pledgee or designee(s) of the Pledgee. The Pledgor(s) undertake(s) to provide the Pledgee within a reasonable time with all notices, orders and decisions regarding the Pledge that are required by the Pledgee.
- 7.4 The Pledgor(s) hereby undertake(s) to comply with and perform all guarantees, promises, agreements, representations and conditions under this Agreement. In the event of failure or partial performance of its guarantees, promises, agreements, representations and conditions, the Pledgor(s) shall indemnify the Pledgee for all losses resulting therefrom.

8. Exercise of Pledge

- 8.1 Each of the following shall constitute an event of default (“**Event of Default**”) hereunder (and an Event of Default is “**continuing**” if it has not been remedied or waived):
- 8.1.1 any statement, warranty or representation made by the Pledgor(s) or the Company, under this Agreement or any of the Principal Agreements are not true, complete or accurate in any aspect; or the Pledgor(s) or the Company breaches or fails to fulfill any obligation or abide by any covenants and undertakings under this Agreement or any Principal Agreements; or
 - 8.1.2 any obligation of the Pledgor(s) or the Company under this Agreement or any of the Principal Agreements is deemed as unlawful or void.
- 8.2 Upon the occurrence and during the continuance of an Event of Default, the Pledgee shall have the right to exercise all such rights as a secured party under any applicable Chinese law, including the PRC Guarantee Law and the PRC Property Law, as in effect from time to time, including without limitations:
- 8.2.1 to sell all or any part of the Pledged Equity in one or more public or private sales upon three (3) days’ written notice to Pledgor(s), and any such sale or sales may be made for cash, upon credit, or for future delivery; or
 - 8.2.2 to execute an agreement with the Pledgor(s) to acquire the Pledged Equity based on its monetary value which shall be determined by referencing the market price of the pledged property;
- The Pledgee has priority to the proceeds obtained by disposition of the Pledged Equity according to the aforesaid means for repayment of fees listed under Section 3 of this Agreement.
- 8.3 The Pledgor(s) and the Company, at the request of the Pledgee, shall take all lawful and appropriate actions to ensure the Pledgee’s exercise of the Pledge right. For the purpose of the foregoing, the Pledgor(s) and the Company should sign all the documents and materials and take all actions and measures reasonably required by the Pledgee.

9. Assignment

- 9.1 None of the Company and the Pledgor(s) shall assign any of its rights or obligations under this Agreement to any third party without the prior written consent of the Pledgee.
- 9.2 The Company and the Pledgor(s) hereby agree(s) that the Pledgee may assign its rights and obligations under this Agreement as the Pledgee may decide, at its sole discretion, and such transfer shall only be subject to a written notice sent to the Company and the Pledgor(s).

10. Termination

This Agreement is terminated after the expiration of the term of the Pledge in accordance with Section 4 of this Agreement.

11. Entire Agreement and Amendment to Agreement

- 11.1 This Agreement and all agreements and/or documents mentioned or included explicitly by this Agreement constitute the complete agreement with respect to the subject matter of this Agreement and shall supersede any and all prior oral agreements, contracts, understandings and communications made by Parties with respect to the subject matter of this Agreement.
- 11.2 Any modification of this Agreement shall be made in a written form and shall only become effective upon the signature by all Parties of the Agreement. Amendments and supplemental agreements to this Agreement duly executed by Parties shall be parts of this Agreement and shall have the same legal effect as this Agreement.

12. Governing Law and Dispute Resolution

- 12.1 This Agreement shall be construed in accordance with and governed by the PRC laws.
- 12.2 Any dispute arising from or in connection with this Agreement shall be submitted to China International Economic and Trade Arbitration Commission (CIETAC) for arbitration which shall be conducted in accordance with the CIETAC's arbitration rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon all Parties. The place of arbitration shall be in Beijing.

13. Effective Date and Term

- 13.1 This Agreement shall be signed and take effect as of the date first set forth above.
- 13.2 The term of this Agreement shall remain effective as long as the Pledge exists.

14. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in Chinese and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of each relevant party as specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as follows: (a) a notice delivered personally is deemed duly served upon delivery; (b) a notice sent by mail is deemed duly served the tenth (10th) day after the date when the postage prepaid registered airmail was sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the courier service company; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation for relevant documents.

15. Severability

If any provision of this Agreement is deemed to be invalid or unenforceable because it is inconsistent with applicable laws, such invalidity or unenforceability shall be limited to such laws, and the validity, legality and enforceability of the other provisions hereof shall not be affected.

16. Counterparts

This Agreement shall be executed in [Party number] originals by all Parties, with each Party holding one original. All originals shall have the same legal effect. The Agreement may be executed in one or more counterparts.

[The Remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the WFOE]

Signature:

Name:

Title:

[Signature Page to Equity Pledge Agreement]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the VIE]

Signature:

Name:

Title:

[Signature Page to Equity Pledge Agreement]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the VIE Shareholder]

Signature:

Name:

Title:

[Signature Page to Equity Pledge Agreement]

Schedule of Material Differences

The VIE Shareholder and the VIE as set out below entered into equity pledge agreement with Hangzhou Yunchuang Gongxiang Network Technology Co., Ltd., the WFOE, using this form, respectively. Pursuant to Instruction ii to Item 601 of Regulation S-K, the Registrant may only file this form as an exhibit with a schedule setting forth the material details in which the executed agreements differ from this form:

No.	Name of VIE Shareholder	Name of Variable Interest Entity (the "VIE")	Version of Equity Pledge Agreement	% of VIE Shareholder's Pledged Equity Interest in the VIE	Material Differences	Execution Date
1	Xiao Shanglue	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended And Restated Equity Pledge Agreement	99.0099%	<p>This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.</p> <p>The recital also references that “ the Pledgee and the Pledgors entered into a loan contract dated December 14, 2018 (the “Loan Contract”), pursuant to which the Pledgee has provided a loan to the Pledgors.”</p> <p>Each Party acknowledges and confirms that the Principal Agreements for which the security of pledge is provided hereunder include the Service Agreement, the Exclusive Option Agreement, the Loan Contract and the agreements to be executed among the Pledgor, the Company and the Pledgee from time to time.</p>	December 14, 2018
2	Hao Huan	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended And Restated Equity Pledge Agreement	0.9901%	<p>This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.</p> <p>The recital also references that “ the Pledgee and the Pledgors entered into the Loan Contract, pursuant to which the Pledgee has provided a loan to the Pledgors.”</p> <p>Each Party acknowledges and confirms that the Principal Agreements for which the security of pledge is provided hereunder include the Service Agreement, the Exclusive Option Agreement, the Loan Contract and the agreements to be executed among the Pledgor, the Company and the Pledgee from time to time.</p>	December 14, 2018

3	Daqiao Network Technology (Hangzhou) Co., Ltd.	Yunji Sharing Technology Co., Ltd.	Amended And Restated Equity Pledge Agreement	65.5346%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	December 17, 2018
					<p>The Company shall (1) upon execution of this Agreement, record the Pledge in the shareholders' register of the Company and provide the shareholder's register to the Pledgee, and (2) submit an application to the AIC for the registration of the Pledge as soon as practicable following the execution of this Agreement and obtain evidencing documents of such registration. The parties covenant that for the purpose of registration of the Pledge, the parties hereto shall submit to the AIC this Agreement or an equity interest pledge contract in the form required by the AIC at the location of the Company which shall truly reflect the information of the AIC Pledge Contract. For matters not specified in the AIC Pledge Contract, the Parties shall be bound by the provisions of this Agreement. In case of any ambiguities or inconsistencies between the AIC Pledge Contract and this Agreement, provisions of this Agreement shall prevail. The Pledgee and the Company shall submit all necessary documents and complete all necessary procedures, as required by the PRC laws and regulations and the AIC, to ensure that the Pledge shall be registered with the AIC as soon as possible after the filing of application.</p>	

4	Hangzhou Yuepeng Trading Co., Ltd.	Yunji Sharing Technology Co., Ltd.	Amended And Restated Equity Pledge Agreement	28.0862%	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	December 17, 2018
					<p>The Company shall (1) upon execution of this Agreement, record the Pledge in the shareholders' register of the Company and provide the shareholder's register to the Pledgee, and (2) submit an application to the AIC for the registration of the Pledge as soon as practicable following the execution of this Agreement and obtain evidencing documents of such registration. The parties covenant that for the purpose of registration of the Pledge, the parties hereto shall submit to the AIC this Agreement or an equity interest pledge contract in the form required by the AIC at the location of the Company which shall truly reflect the information of the AIC Pledge Contract. For matters not specified in the AIC Pledge Contract, the Parties shall be bound by the provisions of this Agreement. In case of any ambiguities or inconsistencies between the AIC Pledge Contract and this Agreement, provisions of this Agreement shall prevail. The Pledgee and the Company shall submit all necessary documents and complete all necessary procedures, as required by the PRC laws and regulations and the AIC, to ensure that the Pledge shall be registered with the AIC as soon as possible after the filing of application.</p>	

5	Deqing Jijie Investment Management Partnership (Limited Partnership)	Yunji Sharing Technology Co., Ltd.	Amended And Restated Equity Pledge Agreement	6.3792%	<p>This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.</p> <p>The Company shall (1) upon execution of this Agreement, record the Pledge in the shareholders' register of the Company and provide the shareholder's register to the Pledgee, and (2) submit an application to the AIC for the registration of the Pledge as soon as practicable following the execution of this Agreement and obtain evidencing documents of such registration. The parties covenant that for the purpose of registration of the Pledge, the parties hereto shall submit to the AIC this Agreement or an equity interest pledge contract in the form required by the AIC at the location of the Company which shall truly reflect the information of the AIC Pledge Contract. For matters not specified in the AIC Pledge Contract, the Parties shall be bound by the provisions of this Agreement. In case of any ambiguities or inconsistencies between the AIC Pledge Contract and this Agreement, provisions of this Agreement shall prevail. The Pledgee and the Company shall submit all necessary documents and complete all necessary procedures, as required by the PRC laws and regulations and the AIC, to ensure that the Pledge shall be registered with the AIC as soon as possible after the filing of application.</p>	December 17, 2018
6	Shu Wenwei	Hangzhou Chuanchou Network Technology Co., Ltd.	Equity Pledge Agreement	100%	N/A	October 23, 2020
7	Ding Panyan	Hangzhou Fengjing Network Technology Co., Ltd.	Equity Pledge Agreement	60%	N/A	December 18, 2020
8	Shu Wenwei	Hangzhou Fengjing Network Technology Co., Ltd.	Equity Pledge Agreement	40%	N/A	December 18, 2020

EXCLUSIVE SERVICE AGREEMENT

This Exclusive Service Agreement (this “**Agreement**”) is entered into as of [Execution Date] by and among the following parties:

- (1) [Name of the WFOE] (“**Party A**”), a domestic company registered in the People’s Republic of China (“**China**” or the “**PRC**”), under the laws of the PRC; and
- (2) [Name of the VIE] (“**Party B**”), a domestic company registered in China, under the laws of the PRC. (Each of Party A and Party B, a “**Party**”, and collectively, the “**Parties**”.)

After friendly consultations conducted on the principle of equality and mutual benefit, the Parties hereby agree as follows:

1. Provision of Services

- 1.1 In accordance with the terms and conditions set forth in this Agreement, Party B hereby irrevocably appoints and designates Party A as their exclusive service provider to provide the technical and business support services as set forth in **Schedule 1**.
- 1.2 Party A has the right to designate and appoint, at its sole discretion, any affiliate of Party A to provide any and all services set forth in this Section.
- 1.3 During the term of this Agreement, Party B shall not, without Party A’s written consent, directly and indirectly, obtain the same or similar services as provided under this Agreement from any third party, or enter into any similar service agreement with any third party.
- 1.4 To ensure that the cash flow requirements of Party B’s ordinary operations are met and/or to set off any loss accrued during such operations, Party A is obligated, only to the extent permissible under PRC law, to provide financing support for Party B, whether or not Party B actually incurs any such operational loss. Party A’s financing support for Party B may take the form of bank entrusted loans or borrowings. Contracts for any such entrusted loans or borrowings shall be executed separately. Party A will not require Party B to repay the loans or borrowings when Party B has no ability to repay.

2. Service Fee and Payment

- 2.1 Party A shall have the right to determine, at its sole discretion, the service fee and proper payment manners for Party B. The calculation and payment manners of the service fee are stipulated in Schedule 2 of this Agreement.
- 2.2 If Party A, at its sole discretion, determines that the fee calculation mechanism specified herein shall no longer apply for any reasons at any time or from time to time during the term of this Agreement, Party A shall have the rights to adjust the fee by giving a 10-day written notice to Party B in advance.

3. Intellectual Property Rights

- 3.1 Any intellectual properties developed in the performance of this Agreement, including but not limited to copyrights, patents and knowhow, shall belong to Party A, and Party B shall enjoy no rights other than those expressly provided herein.
- 3.2 If a development is based on the intellectual properties owned by Party B, Party B shall ensure and warrant that such intellectual properties are flawless. Otherwise, Party B shall bear all damage and losses caused to Party A due to any flaw of such intellectual properties. If Party A are to bear any liabilities to any third party thus caused, it has the right to claim recover all of its losses from Party B.
- 3.3 The Parties agree that this clause shall remain survive after the termination or expiration of this Agreement.

4. Representations and Warranties

4.1 Party A hereby represents and warrants as follows:

- (a) It is a legal person duly incorporated and validly existing under PRC laws;
- (b) Its execution and performance of this Agreement are within Party A's corporate power and business scope;
- (c) It has taken necessary corporate actions and obtained appropriate authorizations, and has obtained the necessary consents or approvals from other third parties or government agencies;
- (d) The execution and performance of this Agreement by Party A do not violate the laws and contracts binding upon Party A; and
- (e) Upon execution, this Agreement will constitute a legal, valid and binding obligation of Party A enforceable against Party A in accordance with its terms.

4.2 Party B hereby represents and warrants as follows:

- (a) It is a legal person duly incorporated and validly existing under PRC laws;
- (b) Its execution and performance of this Agreement are within its entity power and business scope;
- (c) It has taken necessary corporate actions and obtained appropriate authorizations, and has obtained the necessary consents or approvals from other third parties or government agencies;

- (d) Its execution and performance of this Agreement do not violate the laws and contracts binding upon it; and
 - (e) Upon execution, this Agreement will constitute a legal, valid and binding obligation of Party B enforceable against Party B in accordance with its terms.
- 4.3 Party B further warrants Party A as follows:
- (a) Party B shall pay the service fee to Party A in full and in a timely manner according to this Agreement.
 - (b) Within the term of this Agreement, Party B shall:
 - (i) maintain the continuous effectiveness of the permits and qualifications in relation to the business of Party B; and
 - (ii) cooperate with Party A in Party A's provision of services, and take reasonable advices and suggestions given by Party A in respect of the business of the Party B.
- 4.4 Party A shall have the right to examine the accounts of the Party B regularly or at any time. Within the term of this Agreement, the Party B shall cooperate with Party A and its direct or indirect shareholders on audit or due diligence work and provide the auditor and/or other professionals with the information and materials in respect of operation, business, clients, finance and employee. Furthermore, the Party B shall give consent to Party A or its shareholders that for the purpose of listing, Party A or its shareholders may disclose such information and material when it is necessary.
- 4.5 Each Party warrants to the other Party that, it will execute all the necessary documents and take all the necessary actions, including without limitation, issue necessary power of attorney to the other Party for the purpose of carrying out this Agreement and achieving the purpose of this Agreement.

5. Confidentiality

Party B agrees to take all reasonable steps to protect and maintain the confidentiality of the confidential data and information received by Party B in connection with the performance of this Agreement (collectively, the "**Confidential Information**"). Party B shall not disclose, give or transfer any Confidential Information to any third party without Party A's prior written consent. Upon termination of this Agreement, Party B shall, at Party A's request, return any and all documents, information or software containing any of such Confidential Information to Party A or destroy it at its own discretion, and delete all of such Confidential Information from any memory devices, and cease to use such Confidential Information.

6. Effective Date and Term

- 6.1 This Agreement shall be signed and take effect as of the date first set forth above.

6.2 The term of this Agreement is ten (10) years and shall be automatically extended for successive ten (10) years unless terminated as provided herein. Notwithstanding the foregoing provisions, Party A may terminate this Agreement, at its sole discretion, at any time with a written notice to Party B given thirty (30) days in advance. Party B has no right to terminate this Agreement.

7. Governing Law and Dispute Resolution

7.1 This Agreement shall be construed with and governed by the laws of the PRC.

7.2 Any dispute arising from or in connection with this Agreement shall be submitted to China International Economic and Trade Arbitration Commission (the "CIETAC") for arbitration which shall be conducted in accordance with the CIETAC's arbitration rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon all Parties. The place of arbitration shall be in Beijing.

8. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in Chinese and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of each relevant Party or both Parties set forth below or such other address or addressees as specified by such Party from time to time. The date when the notice is deemed to be duly served shall be determined as follows: (a) a notice delivered personally is deemed duly served upon delivery; (b) a notice sent by mail is deemed duly served the tenth (10th) day after the date when the postage prepaid registered airmail was sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the internationally-recognized courier service agency; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation for relevant documents.

9. Assignment

9.1 Party B shall not assign any of its respective rights or obligations under this Agreement to any third party without the prior written consent of Party A.

9.2 Party B hereby agrees that Party A may assign its rights and obligations under this Agreement, only be subject to a written notice to Party B.

10. Severability

If any provision of this Agreement is judged to be invalid or unenforceable because it is inconsistent with applicable laws, such invalidity or unenforceability shall be only with respect to such laws, and the validity, legality and enforceability of the other provisions hereof shall not be affected.

11. Amendment or Supplement

Any amendment or supplement to this Agreement shall be made by Parties in writing. The amendments or supplements duly executed by each party shall form an integral part of this Agreement and shall have the same legal effect as this Agreement.

12. Counterparts

This Agreement shall be executed in two originals by Parties, with Party A and Party B holding one original. All originals shall have the same legal effect. The Agreement may be executed in one or more counterparts.

13. Entire Agreement and Amendment to Agreement

This Agreement and all agreements and/ or documents mentioned or included explicitly by this Agreement constitute the complete agreement with respect to the subject matter of this Agreement and shall substitute any and all prior oral agreements, contracts, understandings and communications made by the Parties with respect to the subject matter of this Agreement.

[Signature pages follow]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the WFOE]

Authorized Representative:

Signature:

Seal:

[Name of the VIE]

Authorized Representative: Signature:

Seal:

[Signature Page to Exclusive Service Agreement]

SCHEDULE 1

Contents of Service

1. Contents of Service

- 1.1 Providing the following technology development and transfer, technical consulting services:
 - (a) Technology development of new business;
 - (b) Technology support and maintenance of current business;
 - (c) Periodical update of all the business content; and
 - (d) Offering and maintaining the hardware and network which are necessary for the business operation.
- 1.2 Providing occupation and pre-occupation staff training services;
- 1.3 Providing public relation services;
- 1.4 Providing market investigation, research and consulting services;
- 1.5 Providing mid or short-term market development, market plan services;
- 1.6 Providing human resource management and internal information management;
- 1.7 Providing network development, updating and daily maintenance;
- 1.8 Licensing of software and trademark;
- 1.9 Other services determined from time to time by Party A according to the need of business and capacity of Party A.

SCHEDULE 2

Calculation and Payment of Service Fee

1. Calculation and Payment of Service Fee
 - 1.1 The fee for the services provided under this Agreement is calculated based on the revenue of Party B and the corresponding operating cost and sales, management and other costs and expenses, and may be charged in the form of:
 - (a) a percentage of the revenue of Party B;
 - (b) a fixed license fee for certain software; and/or
 - (c) other method determined from time to time by Party A according to the nature of services provided.
 - 1.2 The specific amount of such fee shall be determined by Party A through taking account of the following factors, and Party A shall send Party B written confirmation for service fee:
 - (a) The technical difficulty and complexity of the services provided by Party A;
 - (b) The time spent by employees of Party A concerning the services;
 - (c) The contents and commercial value of the services provided by Party A;
 - (d) The benchmark price of similar services in the market.
2. Party A shall calculate service fee payable on a fixed term basis and deliver Party B corresponding invoices. Party B shall pay the service fee to the bank account designated by Party A within 10 business days after receipt of such invoices, and deliver a copy of the remittance certificate by facsimile or mail to Party A within 10 business days after payment. Party A shall issue a receipt within 10 business days after receipt of the service fee.

Schedule of Material Differences

The VIE Shareholder and the VIE as set out below entered into exclusive service agreement with Hangzhou Yunchuang Gongxiang Network Technology Co., Ltd., the WFOE, using this form, respectively. Pursuant to Instruction ii to Item 601 of Regulation S-K, the Registrant may only file this form as an exhibit with a schedule setting forth the material details in which the executed agreements differ from this form:

No.	Name of Variable Interest Entity (the "VIE")	Version of Exclusive Service Agreement	Material Differences	Execution Date
1	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended and Restated Exclusive Service Agreement	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.	December 14, 2018
2	Yunji Sharing Technology Co., Ltd.	Amended and Restated Exclusive Service Agreement	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	December 17, 2018
3	Hangzhou Chuanchou Network Technology Co., Ltd.	Exclusive Service Agreement	N/A	October 23, 2020
4	Hangzhou Fengjing Network Technology Co., Ltd.	Exclusive Service Agreement	N/A	December 18, 2020

EXCLUSIVE OPTION AGREEMENT

This Exclusive Option Agreement (this “**Agreement**”) is entered into as of [Execution Date] by and among the following parties:

- (1) [Name of the WFOE] (the “**WFOE**”);
- (2) [Name of the VIE Shareholder(s)] (the “**Shareholder(s)**”);
- (3) [Name of the VIE] (the “**Company**”).

(Each of WFOE, the Shareholder(s) and the Company individually being referred to as a “**Party**” and collectively the “**Parties**”.)

RECITALS

- (A) **WHEREAS**, the Shareholder(s) hold 100% equity interest in the Company.
- (B) **WHEREAS**, the WFOE and the Company entered into an exclusive service agreement (the “**Exclusive Service Agreement**”) dated [Execution Date], pursuant to which the Company shall pay the WFOE for relevant services it received from the WFOE;
- (C) **WHEREAS**, the WFOE, the Company and its shareholder(s) entered into an equity pledge agreement (the “**Equity Pledge Agreement**”) dated [Execution Date].

THEREFORE, the Parties hereby agree as follows:

AGREEMENT**1. Target Equity Interest**

- 1.1 The Shareholder(s) agree(s) and irrevocably, unconditionally and exclusively grants the WFOE an option to require such Shareholder to transfer any and all of the equity interest of the Company held by such Shareholder (“**Target Equity**”) to the WFOE or a third party designated by the WFOE (“**Designee**”), in whole or in part, subject to the WFOE’s specific requirements (“**Equity Transfer Option**”) in the following circumstances:
 - 1.1.1 The WFOE and/or the Designee are permitted to own lawfully all or part of the Target Equity under the PRC laws and regulations; or
 - 1.1.2 Any other circumstances deemed as appropriate or necessary by the WFOE in its sole discretion.
- 1.2 The Company hereby agrees the Shareholder(s) to grant this option to the WFOE.

- 1.3 The WFOE shall have the right to exercise its purchase right in whole or in part and to acquire the Target Equity in whole or in part without any limit at any time and from time to time.
- 1.4 The WFOE may designate any third party to acquire the Target Equity in whole or in part and the Shareholder(s) shall not refuse and shall transfer the Target Equity in whole or in part to such Designee as requested by the WFOE.
- 1.5 Prior to the transfer of the Target Equity to the WFOE or the Designee according to this Agreement, the Shareholder(s) shall not transfer any Target Equity without the WFOE's prior written consent.

2. Target Assets

- 2.1 The Company hereby agrees and irrevocably, unconditionally and exclusively grants the WFOE an option to require the Company to transfer any and all of the assets of the Company ("**Target Assets**") to the WFOE or the Designee, in whole or in part, subject to the WFOE's specific requirements ("**Assets Transfer Option**"), in the following circumstances:
 - 2.1.1 The WFOE and/or the Designee are permitted to own lawfully all or part of the Target Assets under the PRC laws and regulations; or
 - 2.1.2 Any other circumstances deemed as appropriate or necessary by the WFOE in its sole discretion.
- 2.2 The Shareholder(s) hereby agree(s) the Company to grant this option.
- 2.3 The WFOE shall have the right to exercise its purchase right in whole or in part and to acquire the Target Assets in whole or in part without any limit at any time and from time to time.
- 2.4 The WFOE may designate any third party to acquire the Target Equity in whole or in part and the Company and the Shareholder(s) shall not refuse and shall transfer the Target Assets in whole or in part to such Designee as requested by the WFOE.
- 2.5 Prior to the transfer of the Target Assets to the WFOE or the Designee according to this Agreement, the Company and the Shareholder(s) shall not transfer the Target Assets without the WFOE's prior written consent.

3. Procedures for the Exercise of Equity Transfer Option

- 3.1 Upon execution of this Agreement, the Shareholder(s) shall have duly executed an equity interest transfer agreement in the format set forth in APPENDIX 1 attached hereto and deliver the said document to the WFOE.
- 3.2 If the WFOE decides to exercise the Equity Transfer Option pursuant to Section 1.1 hereinabove, it shall send written notice to the Company and the Shareholder(s) specifying the proportion of the Target Equity to be acquired and the identity of the transferee ("**Equity Purchase Notice**").

- 3.3 The Company and the Shareholder(s) shall furnish all materials and documents necessary for the registration of the aforesaid equity interest transfer within 30 days after the date of Equity Purchase Notice, take all necessary actions and measures, including but not limited to holding shareholders meetings and board meetings, and obtain other shareholders' written consent to waive any preemptive right that they may have with respect to the transfer of the Target Equity.
- 3.4 The Company shall cause the shareholder' of the Company, the WFOE and/or the Designees to sign an equity transfer agreement in substantially the form attached hereto as APPENDIX 1 with respect to any transfer of Target Equity Interest carried out pursuant to this Agreement and the Equity Purchase Notice; provided, however, if there is specific requirements for the form and substance of the equity transfer agreement under the PRC laws, such specific requirement shall be followed.
- 3.5 If the event the WFOE decides to exercise its equity interest purchase right pursuant to Section 1.1, the relevant Parties shall execute all the necessary contracts, agreements or documents, obtain all the necessary government licenses and permits and take all necessary actions to transfer the effective ownership of the Target Equity to the WFOE and/or the Designee(s), without any encumbrance, and cause the WFOE and/or the Designee(s) to become the registered owner(s) of such Target Equity. For the purpose of this section and this Agreement, "Encumbrance" shall mean any security, mortgage, third party's rights or interests, any stock options, acquisition right, right of first refusal, right to offset, ownership retention or other security arrangements, excluding any encumbrance created under this Agreement, the Equity Pledge Agreement and the Exclusive Service Agreement.

4. Procedures for the Exercise of Assets Transfer Option

- 4.1 Upon execution of this Agreement, the Company shall have executed the Assets Transfer Agreement in the format set forth in APPENDIX 2 attached hereto and deliver the aforesaid document to the WFOE.
- 4.2 If the WFOE decides to exercise the Assets Transfer Option pursuant to Section 2.1 hereinabove, it shall send written notice to the Company specifying the Target Assets to be transferred and the identity of the transferee ("**Assets Purchase Notice**").
- 4.3 The Company and the Shareholder(s) shall furnish all materials and documents necessary for the assets transfer and the registration thereof (if any) within 30 days after the date of the Assets Purchase Notice, and take all necessary actions and measure, including but not limited to holding shareholders meetings or board meetings to approve the transactions.
- 4.4 The Company and the Shareholder(s) shall cause the Company to sign an asset transfer agreement with the WFOE and/or the Designees in substantially the form attached hereto as APPENDIX 2 with respect to any transfer of Target Assets carried out pursuant to this Agreement and the Asset Purchase Notice; provided, however, if there is specific requirements for the form and substance of the asset transfer agreement under the PRC laws, such specific requirement shall be followed.

- 4.5 The relevant Parties shall execute all other necessary contracts, agreements or documents, obtain all necessary government licenses and permits and take all necessary actions to transfer the effective ownership of the Target Assets to the WFOE and/or the Designee(s), without any Encumbrance, and cause the WFOE and/or the Designee(s) to become the registered owner(s) of the Target Assets.
- 5.
- 5.1 The total transfer price for the Target Equity and/or the Target Assets shall be RMB 1 yuan. If the PRC law or relevant regulations impose mandatory requirements on the purchase price of such Target Equity and/or the Target Assets, the purchase price shall be such minimum price permitted by PRC law or relevant regulations (“**Transfer Price**”). If any of the Target Equity and/or the Target Assets is transferred in installments, the amount payable for each installment shall be determined in accordance with the proportion of Target Equity and/or the Target Assets to be transferred.
- 5.2 All the taxes, fees and expenses arising from the transfer of the Target Equity and/or the Target Assets shall be borne by all Parties in accordance with the PRC laws.

6. Covenants

6.1 Covenants of the Company and the shareholder(s)

The Shareholder(s) and the Company hereby covenant as follows:

- 6.1.1 Without the prior written consent of the WFOE, they shall not in any manner supplement, change or amend the articles of association and bylaws of the Company, increase or decrease its registered capital, or change its structure of registered capital in other manners;
- 6.1.2 They shall maintain the Company’s corporate existence in accordance with good financial and business standards and practices by prudently and effectively operating its business and handling its affairs;
- 6.1.3 Without the prior written consent of the WFOE, they shall not at any time following the date hereof, sell, transfer, mortgage, pledge or dispose of in any manner any assets of the Company or any of the Company’s subsidiaries, as amended from time to time, or legal or beneficial interest in the business (except in the ordinary course of business) or revenues of the Company, or allow the encumbrance thereon of any security interest;
- 6.1.4 Without the prior written consent of the WFOE, they shall not incur, inherit, guarantee or suffer the existence of any debt, except for debts incurred in the ordinary course of business;

- 6.1.5 They shall always operate all of the Company's businesses during the ordinary course of business to maintain the asset value of the Company and refrain from any action/omission that may affect the Company's operating status and asset value;
- 6.1.6 Without the prior written consent of the WFOE, they shall not cause the Company to execute any material contract, except the contracts in the ordinary course of business;
- 6.1.7 Without the prior written consent of the WFOE, they shall not cause the Company to provide any person or business with any loan or credit other than in the course of ordinary business;
- 6.1.8 They shall provide the WFOE with information on the Company's business operations and financial condition at the WFOE's request;
- 6.1.9 If requested by the WFOE, they shall procure and maintain insurance in respect of the Company's assets and business from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- 6.1.10 Without the prior written consent of the WFOE, they shall not cause or permit the Company to merge, consolidate with, acquire or invest in any person;
- 6.1.11 They shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Company's assets, business or revenue;
- 6.1.12 To maintain the ownership by the Company of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- 6.1.13 Without the prior written consent of the WFOE, they shall ensure that the Company shall not in any manner distribute dividends, assets or any distributable benefit to the Shareholder(s), provided that upon the WFOE's written request, the Company shall immediately distribute part or all distributable profits to the Shareholder(s) who shall in turn immediately and unconditionally pay or transfer to the WFOE any such distribution;
- 6.1.14 If the aggregate amount of the Transfer Price received by it in respect of the transfer of the Target Equity it holds is higher than its contribution to the Company, or it receives any form of profit distribution, dividend or bonus from the Company, then the Shareholder agrees to waive, to the extent not in violation of the PRC Laws, the proceeds from such premium and any such profit distribution, dividend or bonus, and the WFOE shall be entitled to such part of proceeds, otherwise the Shareholder shall make compensation to the WFOE and/or the Designees to recover any damage that may arise from such circumstances; and

6.1.15 At the request of the WFOE, they shall appoint any person designated by the WFOE as the director and/or executive director of the Company.

6.2 Covenants related to Equity of the Company

Each Shareholder hereby covenants as follows:

- 6.2.1 Without the prior written consent of the WFOE, each Shareholder shall not sell, transfer, pledge or dispose of in any other manner any legal or beneficial interest in the Target Equity or allow the encumbrance thereon of any security interest, except for the pledge placed on the Target Equity in accordance with the Equity Pledge Agreement;
- 6.2.2 Without the prior written consent of the WFOE, each Shareholder shall cause the shareholders' meeting and/or the board of directors and/or executive director of the Company not to approve the sale, transfer, pledge or disposition in any other manner of any legal or beneficial interest in the Target Equity or allow the encumbrance thereon of any security interest, except for the pledge placed on the Target Equity in accordance with the Equity Pledge Agreement;
- 6.2.3 The Shareholder shall cause the shareholders' meeting or the board of directors and/or executive director of the Company not to approve the merger or consolidation with any person, or the acquisition of or investment in any person, without the prior written consent of the WFOE;
- 6.2.4 The Shareholder shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Target Equity;
- 6.2.5 At the request of the WFOE at any time, the Shareholder shall promptly and unconditionally cause the transfer of the Target Equity to be approved and consummated as set forth in this Agreement;
- 6.2.6 To the extent necessary to maintain the Shareholder's ownership in the Company, the Shareholder shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- 6.2.7 The Shareholder shall appoint any designee of the WFOE as the director and/or executive director of the Company, at the request of the WFOE;
- 6.2.8 The Shareholder shall strictly abide by the provisions of this Agreement and other contracts jointly or separately executed by and among the Shareholder, the WFOE, and the Company, perform the obligations hereunder and thereunder, and refrain from any action/omission that may affect the effectiveness and enforceability thereof. To the extent that the Shareholder has any remaining rights with respect to the equity interests subject to this Agreement hereunder or under the Equity Pledge Agreement or under the proxy agreement and power of attorney granted in favor of the Shareholder, the Shareholder shall not exercise such rights except in accordance with the written instructions of the WFOE.

7. Representations and Warranties

The Shareholder(s) and the Company hereby represent and warrant to the WFOE, jointly and severally, as of the date of this Agreement and each date of transfer of the Target Equity, that:

- 7.1 The Shareholder(s) and the Company have the authority to execute and deliver this Agreement and any relevant Equity Interest Transfer Agreement concerning the Target Equity to be transferred thereunder, and to perform their obligations under this Agreement and any Equity Interest Transfer Agreements;
- 7.2 The execution and delivery of this Agreement or any Equity Interest Transfer Agreements and the obligations under this Agreement or any Equity Interest Transfer Agreements: (i) do not cause any violation of any applicable laws of PRC; (ii) are not inconsistent with the articles of association, bylaws or other organizational documents of the Company; (iii) do not cause the violation of any contracts or instruments to which they are a party or which are binding on them, or constitute any breach under any contracts or instruments to which they are a party or which are binding on them; (iv) do not cause any violation of any condition for the grant and/or continued effectiveness of any licenses or permits issued to either of them; and (v) do not cause the suspension or revocation of or imposition of additional conditions to any licenses or permits issued to either of them;
- 7.3 The Shareholder(s) have/has good and merchantable title to the Target Equity. Except for the Equity Pledge Agreement, the Shareholder(s) have/has not placed any security interest on the Target Equity;
- 7.4 The Company has a good and merchantable title to all of its assets, and has not placed any security interest on the aforementioned assets, except for encumbrance disclosed to the WFOE for which the WFOE's written consent has been obtained;
- 7.5 The Company does not have any outstanding debts, except for (i) debt incurred in the ordinary course of business; and (ii) debts disclosed to the WFOE for which the WFOE's written consent has been obtained; and
- 7.6 The Company has complied with all laws and regulations of PRC that are applicable to asset acquisitions.

8. Taxes and Fees

Each Party shall pay any and all transfer and registration tax, expenses and fees incurred thereby or levied thereon in accordance with the laws of the PRC in connection with the preparation and execution of this Agreement and the Equity Interest Transfer Agreement, as well as the consummation of the transactions contemplated under this Agreement and the Equity Interest Transfer Agreement.

9. Confidentiality

The Parties acknowledge that any oral or written information exchanged among them with respect to this Agreement is confidential information. Each Party shall maintain the confidentiality of all such information, and without obtaining the written consent of other Parties, it shall not disclose any relevant information to any third parties, except in the following circumstances: (a) such information is or will be in the public domain (provided that this is not the result of a public disclosure by the receiving party); (b) information disclosed as required by applicable laws or regulations or requirements of any stock exchange; or (c) information required to be disclosed by any Party to its legal counsel or financial advisor regarding the transaction contemplated hereunder, and such legal counsel or financial advisor are also bound by confidentiality duties similar to the duties in this section. Disclosure of any confidential information by the staff members or agency hired by any Party shall be deemed disclosure of such confidential information by such Party, which Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

10. Assignment

- 10.1 The Company and the Shareholder(s) shall not assign any of their respective rights or obligations under this Agreement to any third party without the prior written consent of the WFOE.
- 10.2 The Company and the Shareholder(s) hereby agree that the WFOE may assign its rights and obligations under this Agreement as the WFOE may decide at its sole discretion, and such assignment shall only be subject to a written notice sent to the Company and the Shareholder(s).

11. Entire Agreement and Amendment to Agreement

- 11.1 This Agreement and all agreements and/ or documents mentioned or included explicitly by this Agreement constitute the complete agreement with respect to the subject matter of this Agreement and shall substitute any and all prior oral agreements, contracts, understandings and communications made by the Parties with respect to the subject matter of this Agreement.
- 11.2 The Company and the Shareholder(s) shall not have the right to amend, supplement or cancel this Agreement in any manner without the prior written consent of the WFOE.
- 11.3 The appendix is an integral part of this Agreement and has the same legal effects as the other parts of the Agreement.

12. Governing Law and Dispute Resolution

- 12.1 This Agreement shall be construed in accordance with and governed by the laws of the PRC.
- 12.2 Any dispute arising from or in connection with this Agreement shall be submitted to China International Economic and Trade Arbitration Commission (CIETAC) for arbitration which shall be conducted in accordance with the CIETAC's arbitration rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon all Parties. The place of arbitration shall be in Beijing.

13. Effective Date and Term

- 13.1 This Agreement shall be signed and take effect as of the date first set forth above.
- 13.2 Unless terminated in accordance with the provisions herein, this Agreement is valid for ten(10) years, and may automatically be extended for another ten(10) years when expires. This agreement may be extended for unlimited times.

14. Termination

Neither the Company nor the Shareholder(s) shall have the right to terminate this Agreement. Notwithstanding the foregoing provisions, the WFOE may terminate this Agreement at any time in its sole discretion by giving the Company and the Shareholder(s) ten (10) days prior written notice.

15. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in Chinese and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of each relevant party as specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as follows: (a) a notice delivered personally is deemed duly served upon delivery; (b) a notice sent by mail is deemed duly served the tenth (10th) day after the date when the postage prepaid registered airmail was sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the courier service company; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation for relevant documents.

16. Severability

If any provision of this Agreement is judged to be invalid or unenforceable because it is inconsistent with applicable laws, such invalidity or unenforceability shall be only limited to such laws, and the validity, legality and enforceability of the other provisions hereof shall not be affected.

17. Counterparts

This Agreement shall be executed in [Party number] originals, with each Party holding one original. All originals shall have the same legal effect. The Agreement may be executed in one or more counterparts.

[Signature pages follow]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the WFOE]

Signature:

Name:

Title:

[Signature Page to Exclusive Option Agreement]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the VIE]

Signature:

Name:

Title:

[Signature Page to Exclusive Option Agreement]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on the date appearing at the head hereof.

[Name of the VIE Shareholder]

Signature:

Name:

Title:

[Signature Page to Exclusive Option Agreement]

Equity Interest Transfer Agreement

This Equity Interest Transfer Agreement (“**Agreement**”) is entered into in China by:

Transferor:

Transferee:

NOW, the parties hereto agree as follows concerning the equity interest transfer:

1. The transferor agrees to transfer to the transferee % of equity interest of [Name of the VIE] held by the transferor, and the transferee agrees to accept said equity interest.
2. After the closing of equity interest transfer, the transferor shall not have any rights and obligations as a shareholder with regard to the transferred shares, and the transferee shall have such rights and obligations as a shareholder of [Name of the VIE]
3. Any matter not covered by this Agreement may be further agreed on by the parties hereto by signing supplementary agreements.
4. This Agreement shall be effective from the signing day.
5. This Agreement is executed in four originals, with each party holding one original. The remaining originals will be used for the filing with the administration of industry and commerce.

Transferor:

Signature:

Date:

Transferee:

Signature:

Date:

APPENDIX 2

Assets Transfer Agreement

This Assets Transfer Agreement (“**Agreement**”) is entered into in China by:

Transferor: **[Name of the VIE]**

Transferee:

NOW, the Parties agree as follows concerning the assets transfer:

1. The transferor agrees to transfer to the transferee the assets set forth in Schedule-1 hereto, and the transferee agrees to accept the said assets.
2. After the closing of assets transfer, the transferor shall not have any rights and obligations as an owner with regard to the transferred assets, and the transferee shall have such rights and obligations as an owner of the transferred assets.
3. Any matter not covered by this Agreement may be determined by the Parties by way of signing supplementary agreements.
4. This Agreement shall be effective from the signing day.
5. This Agreement is executed in four originals, with each party holding one original. The remaining originals will be used for the filing with the administration of industry and commerce.

Transferor:

[Name of the VIE]

Signature:

Name:

Title: Date:

Transferee:

Signature:

Date:

Schedule - List of Assets

Schedule of Material Differences

The VIE Shareholder and the VIE as set out below entered into exclusive option agreement with Hangzhou Yunchuang Gongxiang Network Technology Co., Ltd., the WFOE, using this form, respectively. Pursuant to Instruction ii to Item 601 of Regulation S-K, the Registrant may only file this form as an exhibit with a schedule setting forth the material details in which the executed agreements differ from this form:

No.	Name of VIE Shareholder	Name of Variable Interest Entity (the "VIE")	Version of Exclusive Option Agreement	Material Differences	% of VIE Shareholder's Equity Interest in the VIE	Execution Date
1	Xiao Shanglue	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended and Restated Exclusive Option Agreement	<p>The total transfer price for the Target Equity and/or the Target Assets shall be equal to the loan provided by the WFOE to the Shareholders under the Loan Contract.</p> <p>This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.</p> <p>The recital also references that "the WFOE, the Company and its shareholders entered into a loan contract (the "Loan Contract") dated December 14, 2018."</p>	99.0099%	December 14, 2018
2	Hao Huan	Zhejiang Yunji Youxuan E-commerce Co., Ltd.	Amended and Restated Exclusive Option Agreement	<p>This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on June 13, 2018.</p>	0.9901%	December 14, 2018

3	Daqiao Network Technology (Hangzhou) Co., Ltd.	Yunji Sharing Technology Co., Ltd.	Amended and Restated Exclusive Option Agreement	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	65.5346%	December 17, 2018
4	Hangzhou Yuepeng Trading Co., Ltd.	Yunji Sharing Technology Co., Ltd.	Amended and Restated Exclusive Option Agreement	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	28.0862%	December 17, 2018
5	Deqing Jijie Investment Management Partnership (Limited Partnership)	Yunji Sharing Technology Co., Ltd.	Amended and Restated Exclusive Option Agreement	This Agreement replace the proxy agreement and power of attorney entered into by and among the Parties on April 16, 2018.	6.3792%	December 17, 2018
6	Shu Wenwei	Hangzhou Chuanchou Network Technology Co., Ltd.	Exclusive Option Agreement	N/A	100%	October 23, 2020
7	Ding Panyan	Hangzhou Fengjing Network Technology Co., Ltd.	Exclusive Option Agreement	N/A	60%	December 18, 2020
8	Shu Wenwei	Hangzhou Fengjing Network Technology Co., Ltd.	Exclusive Option Agreement	N/A	40%	December 18, 2020

List of Principal Subsidiaries of the Registrant

<u>Subsidiary</u>	<u>Place of Incorporation</u>
Yunji Holding Limited	Hong Kong
Yunji Hongkong Limited	Hong Kong
Hangzhou Yunchuang Sharing Network Technology Co., Ltd.	People's Republic of China
Zhejiang Jiyuan Network Technology Co., Ltd.	People's Republic of China
Zhejiang Youji Supply Chain Management Co., Ltd.	People's Republic of China
<u>Consolidated Variable Interest Entity</u>	<u>Place of Incorporation</u>
Yunji Sharing Technology Co., Ltd.	People's Republic of China
Zhejiang Yunji Preferred E-Commerce Co., Ltd.	People's Republic of China
Hangzhou Fengjing Network Technology Co., Ltd	People's Republic of China
Hangzhou Chuanchou Network Technology Co., Ltd.	People's Republic of China
<u>Subsidiary of Consolidated Variable Interest Entity</u>	<u>Place of Incorporation</u>
Zhejiang Jishang Preferred E-Commerce Co., Ltd.	People's Republic of China
Zhejiang Jixiang E-commerce Co., Ltd	People's Republic of China
Shanghai Suye Cosmetics Co., Ltd.	People's Republic of China
Hangzhou Heyi e-commerce Co., Ltd	People's Republic of China

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

I, Shanglue Xiao, certify that:

1. I have reviewed this annual report on Form 20-F of Yunji 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: April 26, 2021

/s/ Shanglue Xiao

Signature

Chief Executive Officer

Title

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

I, Chengqi Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of Yunji 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: April 26, 2021

/s/ Chengqi Zhang

Signature

Vice President of Finance

Title

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

In connection with the Annual Report of Yunji Inc. (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shanglue Xiao, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2021

/s/ Shanglue Xiao

Signature

Chief Executive Officer

Title

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

In connection with the Annual Report of Yunji Inc. (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chengqi Zhang, Vice President of Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2021

/s/ Chengqi Zhang

Signature

Vice President of Finance

Title

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-233539) of Yunji Inc. of our report dated April 26, 2021 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this annual report on Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 26, 2021

33/F, HKRI Centre Two, HKRI Taikoo Hui, 288 Shimen Road (No. 1), Jing'an District
Shanghai 200041, PRC
Tel: +86 21 6080 0909 Fax: +86 21 6080 0999
Beijing · Shanghai · Shenzhen · Hong Kong
www.hankunlaw.com

HANKUN
汉坤律师事务所
Han Kun Law Offices

Date: April 26, 2021

Yunji Inc.

15/F, South Building
Hipark Phase2, Xiaoshan District
Hangzhou, Zhejiang, 310000
People's Republic of China

Dear Sir/Madam:

We hereby consent to the use of our name and the summary of our opinion under the headings, "Item 3. Key Information—D. Risk Factors," "Item 4. Information on the Company—B. Business Overview—Regulations" and "Item 4. Information on the Company—C. Organizational Structure," included in Yunji Inc.'s Annual Report on Form 20-F for the year ended December 31, 2020 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of April 2021, and further consent to the incorporation by reference of the summaries of our opinions under these headings into the Registration Statement on Form S-8 (File No. 333-233539) of Yunji Inc. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours Sincerely,

/s/ Han Kun Law Offices

Han Kun Law Offices

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Yunji Inc.
15/F, South Building
Hipark Phase2, Xiaoshan District
Hangzhou, Zhejiang, 310000
People's Republic of China

26 April 2021

Dear Sirs and/or Madams,

Yunji Inc.

We have acted as legal advisers as to the laws of the Cayman Islands to Yunji Inc., an exempted company incorporated in the Cayman Islands with limited liability (the “**Company**”), in connection with the filing by the Company with the United States Securities and Exchange Commission (the “**SEC**”) of an annual report on Form 20-F for the year ended 31 December 2020 (the “**Annual Report**”).

We hereby consent to the reference to our firm under the heading “Item 16G. Corporate Governance” in the Annual Report and further consent to the incorporation by reference of the summary of our opinion under those headings into the Company’s registration statement on Form S-8 (File No. 333-233539) that was filed on 30 August 2019.

We consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Maples and Calder (Hong Kong) LLP
Maples and Calder (Hong Kong) LLP

Maples and Calder (Hong Kong) LLP

26th Floor Central Plaza 18 Harbour Road Wanchai Hong Kong
Tel +852 2522 9333 Fax +852 2537 2955 maples.com

Resident Hong Kong Partners: Anthony B. Webster (Cayman Islands), Michelle Lloyd (Ireland), Aisling Dwyer (British Virgin Islands)
Ann Ng (Victoria (Australia)), John Trehey (New Zealand), Nick Harold (England and Wales), Terence Ho (New South Wales (Australia)), L.K. Kan (England and Wales)
W.C. Pao (England and Wales), Richard Spooner (England and Wales), Sharon Yap (New Zealand), Matthew Roberts (Western Australia (Australia))
Everton Robertson (Cayman Islands), Jonathan Silver (Republic of the Marshall Islands), Nick Stern (England & Wales), Juno Huang (Queensland (Australia))
Karen Paliaras (Victoria (Australia))

Non-Resident Partners: Jonathan Green (Cayman Islands), Jon Fowler (Cayman Islands), Kieran Walsh (Cayman Islands)
Cayman Islands Attorneys at Law | British Virgin Islands Solicitors | Irish Solicitors