

Renren Inc.  
Form 20-F  
May 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

or

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

**For the fiscal year ended December 31, 2017.**

or

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

**For the transition period from                      to**

or

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

**Date of event requiring this shell company report**

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

Commission file number: 001-35147

Renren 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)

5/F, North Wing

18 Jiuxianqiao Middle Road

Chaoyang District, Beijing 100016

People's Republic of China

(Address of principal executive offices)

Thomas Jintao Ren, Chief Financial Officer

Telephone: +86 (10) 8448-1818

Email: ir@renren-inc.com

5/F, North Wing

18 Jiuxianqiao Middle Road

Chaoyang District, Beijing 100016

People's Republic of China

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

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

**Title of Each Class**

**Name of Each Exchange on Which Registered**

**American depositary shares, each**

**representing 15 Class A ordinary shares**

**The New York Stock Exchange**

**Class A ordinary shares, par value US\$0.001**

**per share\***

\* Not for trading, but only in connection with the listing on The New York Stock Exchange of American depositary shares ("ADSs"). Currently, each ADS represents 15 Class A ordinary shares.

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

None

(Title of Class)

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

None

(Title of Class)

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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, 2017, 726,549,453 Class A ordinary shares, par value US\$0.001 per share and 305,388,450 Class B ordinary shares, par value US\$0.001 per share were outstanding.**

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

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

If a 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

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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 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

In this annual report, except where the context otherwise requires:

“Activated users” refers to the number of Renren user accounts that have been registered and activated. Our users may register with us through their mobile phone number or their email address. Following registration by mobile phone number, the mobile phone will receive an SMS verification code, which must be entered to activate the account. Following registration by email address, an email containing an activation link will automatically be sent to the user’s email address, and the user must then activate by clicking the link. Not all registered users activate the accounts they register with us.

“ADSs” refers to our American depositary shares, each of which represents fifteen Class A ordinary shares. Except as otherwise indicated, all ADS and per ADS data in this annual report give retroactive effect to the change in the number of ordinary shares represented by each ADS from three to fifteen that became effective on February 6, 2017.

“Monthly unique log-in users” refers to the number of different user accounts from which Renren Mobile App or *renren.com* has been logged onto during a given month.

The “PRC” or “China” refers to the People’s Republic of China, excluding, for purposes of this annual report only, Hong Kong, Macau and Taiwan.

“Shares” or “ordinary shares” refer, collectively, to our Class A and Class B ordinary shares, par value US\$0.001 per share. Except as otherwise indicated, all share and per share data in this annual report give retroactive effect to the ten-for-one share split that became effective on March 25, 2011.

“SNS” refers to social networking services.

“We,” “us,” “our company,” and “our” refer to Renren Inc. and its subsidiaries, its consolidated affiliated entities, and subsidiaries of its consolidated affiliated entities.

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain Renminbi figures in this annual report are translated into U.S. dollars solely for the reader’s convenience. Unless otherwise noted, all convenience translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB 6.5063 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 29, 2017. 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, at the rate stated above, or at all.

## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that reflect our current expectations and views of future events. These forward looking statements are made under the “safe-harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. 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 these forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to” or other similar expressions. These forward-looking statements include statements relating to:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- our ability to complete the transaction that we announced on April 30, 2018;
- expected changes in our revenues and certain cost and expense items;

- the expected growth of the SNS and used automobile businesses in China;
- our expectations regarding demand for and market acceptance of our services;
- changes in technology affecting our business, and our company's responses to these changes;
- our plans to enhance our user experience, infrastructure and service offerings;
- competition in our industry in China;
- the performance of our strategic and financial investments; and
- relevant government policies and regulations relating to our industry.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, and business strategy. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect, and our actual results could be materially different from our expectations. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should 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 with these cautionary 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.

## 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**

Selected Consolidated Financial Data

The following selected consolidated statement of operations data for the three years ended December 31, 2015, 2016 and 2017 and the selected consolidated balance sheet data as of December 31, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our selected consolidated statement of operations data for the years ended December 31, 2013 and 2014 and our selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements not included in this annual report, except for the impact of retrospective adjustments for *56.com*, our online video business, which we ceased to control on December 1, 2014, and our online games business, which we ceased to control on March 31, 2016, all of which have been classified as discontinued operations.

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” in this annual report. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. Due to the retrospective adjustments, our results of operations for the years ended December 31, 2013 and 2014 and financial positions as of December 31, 2013 and 2014 are not directly comparable to the financial data reported in our previously filed annual reports.

Our historical results do not necessarily indicate results expected for any future periods.

	Year ended December 31,				
	2013	2014	2015	2016	2017
	(in thousands of US\$, except for share, per share and per ADS data)				
<b>Summary Consolidated Statement of Operations</b>					
<b>Data:</b>					
Net revenues	\$ 64,050	\$ 46,668	\$ 41,111	\$ 63,364	\$ 202,102
Cost of revenues	32,970	34,663	36,720	51,767	184,398
Gross profit	31,080	12,005	4,391	11,597	17,704
Operating expenses <sup>(1)</sup> :					
Selling and marketing	43,166	34,593	30,502	21,276	28,954
Research and development	54,716	42,697	32,392	20,750	23,678
General and administrative	38,021	48,764	46,803	42,584	52,949
Impairment of goodwill	—	46,864	—	—	—
Total operating expenses	135,903	172,918	109,697	84,610	105,581
Loss from operations	104,823	160,913	105,306	73,013	87,877
Other income (expenses)	2,455	(3,629 )	(7,058 )	12,888	(1,369 )
Interest income	12,769	12,569	2,190	919	2,029
Interest expense	—	—	(2,041 )	(12,439 )	(10,185 )
Realized gain (loss) on short-term investments	56,022	139,265	(98,112 )	552	(100 )
Realized gain on disposal of long-term investments	—	—	—	—	37,311
Impairment of short-term investments	(2,098 )	—	—	—	—
Impairment of long-term investments	(23,025 )	—	(4,258 )	(102,307 )	(113,073 )
Loss before provision of income tax and earnings (loss) in equity method investments and noncontrolling interest, net of income taxes	(58,700 )	(12,708 )	(214,585 )	(173,400 )	(173,264 )
Income tax benefit (expenses)	3,959	(6,517 )	(3,124 )	(2,470 )	(4,479 )
Loss before earnings (loss) in equity method investments and noncontrolling interest, net of income taxes	(54,741 )	(19,225 )	(217,709 )	(175,870 )	(177,743 )
Earnings (loss) in equity method investments, net of income taxes	20,317	49,015	(5,468 )	(18,183 )	67,240
(Loss) income from continuing operations	(34,424 )	29,790	(223,177 )	(194,053 )	(110,503 )

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(Loss) income from the operations of the discontinued operations, net of income taxes	(34,600 )	(27,194 )	1,520	391	—
Gain on deconsolidation of the subsidiaries, net of income taxes	132,665	489	—	8,310	—
Gain on disposal of equity method investment, net of income taxes	—	56,993	—	—	—
Income from discontinued operations, net of income taxes	98,065	30,288	1,520	8,701	—
Net income (loss)	63,641	60,078	(221,657 )	(185,352 )	(110,503 )
Net loss attributable to the noncontrolling interest	92	382	1,529	—	76
Net (loss) income from continuing operations attributable to Renren Inc.	(34,332 )	30,172	(221,648 )	(194,053 )	(110,427 )
Net income from discontinued operations attributable to Renren Inc.	98,065	30,288	1,520	8,701	—
Net income (loss) attributable to Renren Inc.	\$ 63,733	\$ 60,460	\$ (220,128 )	\$ (185,352 )	\$ (110,427 )
Net (loss) income per share:					
Net (loss) income per share from continuing operations attributable to Renren Inc. shareholders:					
Basic	\$ (0.03 )	\$ 0.03	\$ (0.22 )	\$ (0.19 )	\$ (0.11 )
Diluted	\$ (0.03 )	\$ 0.03	\$ (0.22 )	\$ (0.19 )	\$ (0.11 )
Net income per share from discontinued operations attributable to Renren Inc. shareholders:					
Basic	\$ 0.09	\$ 0.03	\$ 0.00	\$ 0.01	\$ —
Diluted	\$ 0.09	\$ 0.03	\$ 0.00	\$ 0.01	\$ —

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	Year ended December 31,				
	2013	2014	2015	2016	2017
	(in thousands of US\$, except for share, per share and per ADS data)				
Net income (loss) per share attributable to Renren Inc. shareholders:					
Basic	\$0.06	\$0.06	\$(0.22)	\$(0.18)	\$(0.11)
Diluted	\$0.06	\$0.06	\$(0.22)	\$(0.18)	\$(0.11)
Net income (loss) attributable to Renren Inc. shareholders per ADS <sup>(2)</sup> :					
Basic	\$0.86	\$0.86	\$(3.24)	\$(2.72)	\$(1.61)
Diluted	\$0.85	\$0.85	\$(3.24)	\$(2.72)	\$(1.61)
Weighted average number of shares used in calculating net (loss) income per ordinary share from continuing operations attributable to Renren Inc. shareholders:					
Basic	1,118,091,879	1,059,446,436	1,019,378,556	1,022,664,396	1,028,537,406
Diluted	1,118,091,879	1,067,631,709	1,019,378,556	1,022,664,396	1,028,537,406
Weighted average number of shares used in calculating net (loss) income per ordinary share from discontinued operations attributable to Renren Inc. shareholders:					
Basic	1,118,091,879	1,059,446,436	1,019,378,556	1,022,664,396	1,028,537,406
Diluted	1,130,739,922	1,067,631,709	1,027,236,202	1,027,176,963	1,028,537,406

(1) Including share-based compensation expenses as set forth below:  
(2) Each ADS represents 15 Class A ordinary shares.

	Year ended December 31,				
	2013	2014	2015	2016	2017
	(in thousands of US\$)				
Allocation of Share-based Compensation Expenses:					
Selling and marketing	138	193	243	770	598
Research and development	404	916	781	1,363	1,092
General and administrative	9,608	18,983	25,481	21,411	26,326
	10,150	20,092	26,505	23,544	28,016
Expenses from the discontinued operations	5,988	3,512	1,736		

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Total share-based compensation expenses \$16,138 \$23,604 \$28,241 \$23,544 \$28,016

	As of December 31,				
	2013	2014	2015	2016	2017
	(in thousands of US\$)				
<b>Summary Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$149,511	\$166,652	\$56,226	\$79,370	\$128,595
Term deposits	492,699	494,065	—	—	—
Restricted cash	—	—	122,316	30,390	47,253
Short-term investments	301,995	29,384	2,619	410	—
Accounts receivable, net	15,865	11,599	4,044	4,702	6,260
Financing receivable, net	—	6,285	144,457	301,773	125,478
Total current assets	1,122,587	763,203	403,938	450,813	468,005
Total assets	1,385,686	1,149,153	1,267,833	1,176,844	1,194,164
Total current liabilities	115,262	46,044	208,751	270,223	370,547
Total liabilities	115,418	46,774	338,445	438,378	485,418
Total equity	\$1,270,268	\$1,102,379	\$929,388	\$738,466	\$674,804

**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

We have a history of losses from operations, and our new business initiatives may not be successful.

We have made significant changes to our business scope in recent years. The portfolio of services we offer has evolved from SNS, historically the core of our company's business, to include a financing business, a used automobile business and other new initiatives. We have also disposed of some of our existing businesses in order to focus on new business opportunities, and we are planning on disposing of Beijing Zhenzhong Interactive Information Technology Co., Ltd., which is the wholly owned subsidiary of one of our consolidated affiliated entities and operates our ZenZone advertising agency business. In the year ended December 31, 2017, 59.8% of our net revenues were derived from our used automobile sales business, and 12.5% of our net revenues were derived from our business of providing credit financing to used automobile dealers. The profitability of our new initiatives has yet to be proven. We had net revenues of US\$41.1 million, US\$63.4 million and US\$202.1 million in 2015, 2016 and 2017, respectively, and losses from operations of US\$105.3 million, US\$73.0 million and US\$87.9 million, respectively, over the same period. Expansion into new businesses may present operating and marketing challenges that are different from those that we currently encounter, and we cannot assure you that our new business initiatives will be successful enough to justify the time, effort and resources that we devote to them. If our used automobile business and our financing business do not continue to grow as rapidly as we hope or if we cannot control costs effectively as the business grows, we may not be able to achieve profitability.

If we are deemed an "investment company" under the Investment Company Act of 1940, it would adversely affect the price of our ADSs and ordinary shares and could have a material adverse effect on our business.

As part of our business transition, we previously implemented a strategy to acquire or invest in complementary businesses in order to gain access to or develop new technologies, know-how or services. For example, we invested more than US\$240 million in Social Finance Inc., or SoFi, a privately held company that operates a social finance business in the United States similar to the business that we have been establishing in China. As of December 31, 2017, our balance sheet included US\$565.4 million in long-term investments in some 57 portfolio companies and investment funds. We may be deemed to be an investment company within the meaning of the Investment Company Act based on the value of the investment securities we hold and on other factors relevant to the definition of an investment company under the Investment Company Act. See "Item 4A. Unresolved Staff Comments."

On April 30, 2018, we announced that Oak Pacific Investment, or OPI, a wholly-owned subsidiary of Renren Inc., would be conducting a private placement. In addition to our advertising agency business, OPI holds our shares in 44

portfolio companies and our interests in 6 investment funds. These portfolio companies and investment funds have an aggregate book value of US\$530.6 million as of December 31, 2017, and represent the great majority of our long-term investments in terms of both book value and fair market value. After the completion of the private placement, Renren would not longer hold any shares of OPI. We refer to this transaction as the Transaction. See “Item 4. Information on the Company—A. History and Development of the Company—The Transaction.” The disposition of OPI is scheduled to occur on June 21, 2018.

If the Transaction is not completed as planned and we are deemed to be an investment company within the meaning of the Investment Company Act, we would become unable to comply with our reporting obligations as a public company in the United States, which would lead to our being delisted from the New York Stock Exchange. Delisting would have a material adverse effect on the liquidity and value of our ADSs and Class A ordinary shares. We would also be unable to raise capital through the sale of securities in the United States or to conduct business in the United States. In addition, we may be subject to SEC enforcement action or purported class action lawsuits for alleged violations of U.S. securities laws. Defending ourselves against any such enforcement action or lawsuits would require significant attention from our management and divert resources from our existing businesses and could have a material adverse effect on our results of operations and financial condition.

The Transaction will leave us with less cash and fewer investment assets that can be readily converted into cash, which may restrict our growth in the future.

As we announced on April 30, 2018, we will pay a cash dividend in an amount in the aggregate from US\$nil up to approximately US\$131 million in connection with the Transaction. In addition, we will dispose of a wholly-owned subsidiary, OPI, which holds the great majority of our long-term investments in terms of both book value and fair market value. Once the Transaction has closed, we no longer own OPI and we have paid the cash dividend to our shareholders, we will have less cash on hand and fewer investment assets that can be readily converted into cash, which will restrict our options if we require more cash in the future. If we are unable to raise cash as required from new offerings of equity or debt or from bank loans or other sources, we may have insufficient cash to fund or expand our business, and our future growth, our results of operations and our financial position may be materially and adversely affected.

U.S. Holders may suffer adverse tax consequences as a result of the Transaction.

We believe we were classified as a passive foreign investment corporation, or PFIC, for U.S. federal income tax purposes for each of the past seven taxable years ending on December 31 and we expect, but cannot guarantee, that we will be treated as a PFIC for the current taxable year. As a result, U.S. Holders (as defined in “Item 10.E—Additional Information—Taxation—United States Federal Income Tax Considerations—General”) who are shareholders as of the record date of the cash dividend payable pursuant to the Transaction may recognize ordinary income from the cash dividend and could be subject to an additional penalizing tax on certain U.S. federal income taxes deemed deferred to the extent the cash dividend is treated as an “excess distribution” under the PFIC rules. The additional tax is generally equivalent to an interest charge on U.S. federal income taxes that are deemed due during the period the U.S. Holder owned our ADSs or ordinary shares, computed by assuming that the excess distribution was taxed in equal portions at the highest applicable tax rate throughout the holder’s period of ownership. Shareholders who have made a timely “mark-to-market” election would not be subject to this additional tax with respect to the cash dividend. U.S. Holders may also be deemed to recognize as ordinary income subject to the “excess distribution” rules a proportionate share of any gain deemed to be realized by Renren Inc. as a result of the private placement of shares by Oak Pacific Investment, or OPI, a wholly-owned subsidiary of Renren Inc. that we expect to be treated as a PFIC, under special rules applicable to “indirect dispositions” of PFICs if a U.S. Holder’s (direct or indirect) interest in OPI is reduced as a result of the Transaction.

If, contrary to our current expectation, we are not treated as a PFIC for the current taxable year, any ADSs or ordinary shares acquired during the year would not be considered PFIC stock and therefore cash received with respect to such ADSs or ordinary shares would not be subject to the PFIC “excess distribution” regime described above and may be eligible for the reduced rate for qualified dividend income and any gain resulting from an “indirect disposition” of our PFIC subsidiaries, such as OPI, would generally not be required to be recognized with respect to such ADSs or ordinary shares.

For further information concerning the PFIC rules and the U.S. federal income tax consequences of dividends paid by us and direct or indirect dispositions of PFICs, see “Item 10.E—Additional Information—Taxation—United States Federal Income Tax Considerations.” For further information concerning the Transaction, see “Item 4. Information on the Company—A. History and Development of the Company—The Transaction.” Holders of our ADSs or ordinary shares are urged to consult their tax advisors as to the tax consequences of the Transaction to them, including as a result of the application of the PFIC rules.

Our dealerships conduct many aspects of our used automotive sales business, and we face risks associated with these relationships, their employees and other personnel.

We rely on our dealerships to conduct significant aspects of our used automotive sales business. As of March 31, 2018, we had 14 dealerships across China. Our dealerships and their employees directly interact with consumers, other dealerships and other platform participants, and their performance directly affects our reputation and brand image. If our service personnel or those of our dealerships fail to satisfy the needs of consumers, respond effectively to their complaints, or provide services to their satisfaction, our reputation and the loyalty of our customers could be negatively affected. As a result, we may lose customers or experience a decrease in our business volume, which could have a material adverse effect on our business, financial condition and results of operations. We do not directly supervise the services provided by our franchisee partners and may not be able to successfully maintain and improve the quality of their services. Our dealerships may also fail to implement sufficient control over their sales, maintenance and other personnel. As a result, we may suffer financial losses, incur liabilities and suffer reputational damages. In addition, while violation of laws and regulations by dealerships had not led to any material claims against us in the past, we cannot assure you that such claim will not arise in the future which may harm our brand or reputation or have other adverse impacts.

Further, suspension or termination of a dealership's services in a particular geographic area may cause interruption to or failure in our services in the corresponding geographic area. A dealership may suspend or terminate its services voluntarily or involuntarily due to various reasons, including disagreement or dispute with us, failure to make a profit, failure to maintain requisite approvals, licenses or permits or to comply with other governmental regulations, and events beyond our or its control, such as inclement weather, natural disasters, transportation interruptions or labor unrest or shortage. Due to the intense competition in our industry, our existing dealerships may also choose to discontinue their cooperation with us and work with our competitors instead. We may not be able to promptly replace our dealerships or find alternative ways serve their geographic areas in a timely, reliable and cost-effective manner, or at all. As a result of any service disruptions associated with our dealerships, customer satisfaction, brand, reputation, operations and financial performance may be materially and adversely affected.

***Other dealers with which our dealerships collaborate could take actions that could harm our business and that of our dealerships.***

For our used automotive sales business, pursuant to our arrangements with our dealerships, we may permit the dealerships to develop and operate other dealership locations in their defined geographic areas. Accordingly, certain dealerships may elect to cooperate with third parties to develop and operate dealerships in the geographic area covered by the relevant agreement. Such agreements contractually obligate our dealerships to operate in accordance with specified standards, including synchronization of their operations on our platform and integration in our system. As a result, the ultimate success and quality of any additional location rests with our dealership. If these additional dealerships do not successfully operate in a manner consistent with required standards, their performance, the performance of our dealerships and ultimately, our performance could be adversely affected and our brand image and reputation may be harmed, which could materially and adversely affect our business and operating results.

***For our used automotive sales business, our success depends upon the continued contributions of our salespeople.***

Our salespeople are the driving force behind our success. We believe that one of the things that sets us apart is a culture centered on valuing all salespeople. Our failure to maintain this culture or to continue recruiting, developing and retaining the salespeople that drive our success could have a material adverse effect on our business, sales and results of operations. We also face risks related to the loyalty of our sales people. Referrals of leads by salespeople to friends or others in side deals is common phenomenon in our industry in China, and if our sales people sought to profit themselves personally at the expense of our company, this could hurt our business and results of operations. Our ability to recruit salespeople while controlling related costs is subject to numerous external and internal factors, including unemployment levels, prevailing wage rates, our growth plans, changes in employment legislation and competition for qualified employees in the industry and regions in which we operate and for qualified service technicians in particular. Our ability to recruit salespeople while controlling related costs is also subject to our ability to maintain positive associate relations. If we are unable to do so, or if, despite our efforts, we become subject to successful unionization efforts, it could increase our costs, limit our ability to respond to competitive threats and have a material adverse effect on our business, sales and results of operations.

The success of our used automotive sales business also depends upon the continued contributions of our store, region and corporate management teams. Consequently, the loss of the services of any of key salespeople could have a material adverse effect on our business, sales and results of operations. In addition, an inability to build our management bench strength to support store growth could have a material adverse effect on our business, sales and results of operations.

***The success of our used automotive sales business depends on our ability to attract prospective car buyers.***

The growth of our used automotive sales business depends on our ability to attract prospective car buyers. We primarily purchase car models based on our insights as to car buyers, feedback from registered dealers and market analysis as to perception and demand for such models, will appeal to car buyers in lower-tier cities. We price cars based on our massive amount of automotive transaction data associated with providing automotive financing solutions as well as data from facilitating other automotive transactions such as automobile trading between dealers to efficiently facilitate their sale. We have limited experience in the purchase of cars for sale to dealers, and there is no assurance that we will be able to do so effectively. Demand for the type of cars that we purchase can change significantly between the time the cars are purchased and the date of sale. Demand may be affected by new car launches, changes in the pricing of such cars, defects, changes in consumer preference and other factors, and dealers may not purchase them in the quantities that we expect. We may also need to adopt more aggressive pricing strategies for these cars than originally anticipated. We face inventory risk in connection with the car purchased, including the risk of inventory obsolescence, a decline in values, and significant inventory write-downs or write-offs. If we were to adopt more aggressive pricing strategies, our profit margin may be negatively affected as well. We may also face increasing costs associated with the storage of these cars. Any of the above may materially and adversely affect our financial condition and results of operations.

In order to expand our base of car buyers, we must continue to invest significant resources in the development of new solutions and services and build our relationships with financial institutions, auto dealers and other platform participants. Our ability to successfully launch, operate and expand our solutions and services and to improve user experience to attract prospective car buyers depends on many factors, including our ability to anticipate and effectively respond to changing interests and preferences of car buyers, anticipate and respond to changes in the competitive landscape, and develop and offer solutions and services that address the needs of car buyers on our platform. If our efforts in these regards are unsuccessful, our base of car buyers may not increase at the rate we anticipate, and it may even decrease. As a result, our business, prospects, financial condition and results of operations may be materially and adversely affected. In addition, in order to attract prospective car buyers, we must also devote significant resources to enhancing the experience of car buyers on our platform on an ongoing basis. We must enhance the functionality and ensure the reliability of our platform. If we fail to provide superior customer service or address complaints of car buyers on our platform in a timely manner, we may fail to attract prospective car buyers as to our solutions and services, the number of financing transactions we facilitate may decline. In addition, the models offered by our dealerships may not be popular among prospective car buyers, which could materially and adversely affect our business, results of operations and financial condition.

In the meantime, we also seek to maintain our relationships with existing car buyers and cross-sell new solutions and services, such as insurance and wealth management products. However, there can be no assurance that we will be able to maintain or deepen such relationships.

***Automotive retailing is highly competitive. Failure to develop and execute strategies to grow our business could adversely affect our business, sales and results of operations.***

Automotive retailing is a highly competitive and highly fragmented industry. Our competition includes publicly and privately owned used and new car dealers and online and mobile sales platforms, as well as millions of private individuals. Competitors buy and sell the same or similar makes of vehicles that we offer in the same or similar markets at competitive prices. Some of our competitors have announced plans for rapid expansion, including into markets with our locations, and some of them have begun to execute those plans. The online availability of used vehicle information from other sources, including pricing information, could make it more difficult for us to differentiate our customer offering from competitors' offerings. Our competitive standing may also be affected by companies, including search engines and online classified sites, that are not direct competitors but that may direct online traffic to the websites of competing automotive retailers. The increasing use of the internet to facilitate consumers' sales or trade-ins of their current vehicles could have a material adverse effect on our ability to source vehicles. If we fail to respond effectively to competitive pressures or to changes in the used vehicle marketplace, it could have a material adverse effect on our business, sales and results of operations.

***The automotive retail industry in general and our used automotive sales business in particular are sensitive to economic conditions. These conditions could adversely affect our business, sales, results of operations and financial condition.***

We are subject to national and regional economic conditions. These conditions include, but are not limited to, recession, inflation, interest rates, unemployment levels, the state of the PRC housing market, gasoline prices, consumer credit availability, consumer credit delinquency and loss rates, personal discretionary spending levels, and consumer sentiment about the economy in general. These conditions and the economy in general could be affected by significant national or international events such as acts of terrorism. When these economic conditions worsen or stagnate, it can have a material adverse effect on consumer demand for vehicles generally, on demand from particular consumer categories or demand for particular vehicle types. It can also negatively impact availability of credit to finance vehicle purchases for all or certain categories of consumers. This could result in lower sales, decreased margins on units sold, and decreased profits for our used automotive sales business. Worsening or stagnating economic conditions can also have a material adverse effect on the supply of late-model used vehicles, as automotive manufacturers produce fewer new vehicles and consumers retain their current vehicles for longer periods of time. This could result in increased costs to acquire used vehicle inventory and decreased margins on units sold. Any significant change or deterioration in economic conditions could have a material adverse effect on our business, sales, results of operations and financial condition.

*Our used automotive sales business is sensitive to changes in the prices of used vehicles.*

Any significant changes in retail prices for used vehicles could have a material adverse effect on the sales and results of operations of our used automotive sales business. For example, if retail prices for used vehicles rise relative to retail prices for new vehicles, it could make buying a new vehicle more attractive to our customers than buying a used vehicle, which could have a material adverse effect on sales and results of operations and could result in decreased used margins. Manufacturer incentives could contribute to narrowing this price gap. In addition, any significant changes in wholesale prices for used vehicles could have a material adverse effect on our results of operations by reducing wholesale margins.



***Our used automotive sales business is sensitive to conditions affecting automotive manufacturers, including manufacturer recalls.***

Adverse conditions affecting one or more automotive manufacturers could have a material adverse effect on the sales and results of operations of our used automotive sales business and could impact the supply of vehicles, including the supply of late-model used vehicles. Manufacturer recalls are a common occurrence that have accelerated in frequency and scope in recent years. Because we do not have manufacturer authorization to complete recall-related repairs, some vehicles we sell may have unrepaired safety recalls. Such recalls, and our lack of authorization to make recall-related repairs, could adversely affect used vehicle sales or valuations, could cause us to temporarily remove vehicles from inventory, could force us to incur increased costs and could expose us to litigation and adverse publicity related to the sale of recalled vehicles, which could have a material adverse effect on our business, sales and results of operations.

***Our used automotive sales business is dependent upon access to vehicle inventory. Obstacles to acquiring inventory, whether because of supply, competition, or other factors, or a failure to expeditiously liquidate that inventory could have a material adverse effect on our used automotive sales business, sales and results of operations.***

A reduction in the availability of or access to sources of inventory could have a material adverse effect on our business, sales and results of operations. Although the supply of late-model used vehicles has been increasing, there can be no assurance that this trend will continue or that it will benefit us.

As our used automotive sales business is dependent on our appraisal of the value of inventory we purchase, if we fail to adjust appraisal offers to stay in line with broader market trade-in offer trends, or fail to recognize those trends, or if our appraisal process is not accurate, it could adversely affect our ability to acquire inventory. It could also force us to purchase a greater percentage of our inventory from third-party auctions, which is generally less profitable for us. Our appraisal process could also be affected by competition, both from used and new car dealers directly and through third-party websites driving appraisal traffic to those dealers. Our ability to source vehicles from third-party auctions could be affected by an increase in the number of closed auctions that are open only to new car dealers who have franchise relationships with automotive manufacturers.

We also source a portion of our vehicles through our crowd-sourcing strategy, in which we rely on third-party partners, such as individuals or small dealerships to acquire used automobiles. We may be unable to maintain relationships with these third parties or may experience issues with the vehicles they provide to us, each of which could harm our business, sales and results of operations.

Used vehicle inventory is subject to depreciation risk. Accordingly, if we develop excess inventory, the inability to liquidate such inventory at prices that allow us to meet margin targets or to recover our costs could have a material adverse effect on our results of operations.

*We depend on third parties for supplies of spare parts and accessories*

Our used automotive sales business depends on auto manufacturers and independent local third-party suppliers for certain spare parts and accessories we sell. The success of our value-added services is dependent on these suppliers' abilities to anticipate changes in consumer tastes, preferences and requirements and deliver to us in sufficient quantities and on a timely basis the desirable, high-quality and price competitive mix of accessories. Our suppliers' products may fail to meet our customers' expectations due to changes of consumer preferences. We may be unable to maintain a sufficient stock. Our suppliers may increase their prices due to increasing demand for their products from other dealership stores. If we cannot or opt not to procure spare parts and accessories from such third-party suppliers, our profit margin for after-sales services might be adversely affected. Moreover, the spare parts supplied by our suppliers may fail to function properly and as a result, our customers may make claims against us, in which case we may be required to make repairs or pay damages. In the event of any of the above, our margins of these products may be affected, which in turn could adversely affect our results of operations and financial condition.

If our financing services do not achieve sufficient market acceptance, our financial results and competitive position will be harmed.

Our financing business currently focuses on credit financing of used automobile dealers. Funds for this business are provided by our issuance of asset-backed securities collateralized by that credit financing and by peer-to-peer platforms. Many elements of our financing business are relatively unproven, and the internet finance market in China is relatively new, rapidly developing and subject to significant challenges. Although we intend to devote significant resources to expanding our financing business and to develop and offer more innovative products to our clients, we have limited experience with this business model and cannot assure you of its future success. If we fail to address the needs of financing customers, adapt to rapidly evolving market trends or continue to offer innovative products and services, there may not be significant market demand for our financing products and services. In addition, our financing business will continue to encounter risks and difficulties that early stage businesses frequently experience, including the potential failure to cost-effectively expand the size of our customer base, maintain adequate management of risks and expenses, implement our customer development strategies and adapt and modify them as needed, develop and maintain our competitive advantages and anticipate and adapt to changing conditions in China's internet financing industry resulting from mergers and acquisitions involving our competitors or other significant changes in economic conditions, competitive landscape and market dynamics. We have not yet proven the essential elements of profitable operations in our financing business.

Our financing services could fail to attain sufficient market acceptance for many reasons, including but not limited to:

- failure to predict market demand accurately and supply loan products that meet this demand in a timely fashion;
- failure to properly price new loan products;
- defects, errors or failures on our platform;
- negative publicity about our loan products or our platform's performance or effectiveness;
- views taken by regulatory authorities that new products or platform changes do not comply with PRC laws, rules or regulations applicable to us; and
- the introduction or anticipated introduction of competing products by our competitors.

If our financing services do not achieve adequate acceptance in the market, our competitive position, results of operations and financial condition could be harmed.

We have limited experience in operating a finance business and assessing credit risk. Failure to assess and manage our credit risks or a significant deterioration in the credit quality of our loan portfolio may have a material adverse effect on our business, results of operations and financial condition.

Credit risk is the risk of loss due to adverse changes in a borrower's ability to meet its financial obligations on agreed upon terms. The degree of credit risk will vary based on many factors including the size of the loan, the credit characteristics of the borrower, the contractual terms in the loan documents and the availability and quality of collateral. Credit risk management is based on analyzing the creditworthiness of the borrower, the adequacy of underlying collateral given current events and conditions and the existence and strength of any guarantor support. We have limited experience in designing and operating credit risk control systems, and we may be unable to properly analyze and mitigate the credit risks inherent in our business.

The overall credit quality of our loan portfolio is impacted by factors outside of our control, such as the performance of the Chinese economy. In addition, our credit risk is concentrated heavily in a single small segment of the economy, used automobile dealerships, which may do poorly even as the overall economy is doing well. Economic trends that

negatively affect the Chinese economy as a whole or used automobile dealerships in particular could result in deterioration in credit quality of our loan portfolio. A deterioration in the credit quality of our loan portfolio may require us to increase our provision of financing receivable, which increases our cost of revenues and decreases our gross profit.

Our loans to used automobile dealerships are secured by the used automobiles which they hold as inventory. However, foreclosing on collateral and attempting to liquidate it would cause us to incur additional expenses, and the value of the collateral may be impaired by the same economic factors that caused the borrowers to default on their loans, such as reduced demand for used automobiles. In addition, there is constant turnover in the inventory of our borrowers, and we must ensure that the quality of the collateral does not deteriorate. We cannot assure you that the collateral for our loans will be sufficient to significantly mitigate any losses we may suffer from defaulted loans.

We face significant competition in almost every aspect of our business. If we fail to compete effectively, we may lose market share and our business, prospects and results of operations may be materially and adversely affected.

We face significant competition in almost every aspect of our business. In our social networking business that provides multiple services, including live streaming service and other value-added services, we compete with companies and services such as Tencent's WeChat, QQ mobile, and Q-zone, SINA's Weibo, Momo, YY, Huajiao and Douyu. Competition with these services in the mobile landscape is as intense as with their PC counterparts, if not more so. In our financing business, we primarily compete with the companies of providing financing services to individual consumers and dealerships in automobile financing services. In relation to our used automobile sales business, our competitors primarily include the publicly and privately owned used and new car dealers, online and mobile sales platforms, as well as millions of private individuals.

Some of our competitors have significantly larger user bases and more established brand names and may be able to effectively leverage their user bases and brand names to provide integrated internet communication, online games, social networking and other products and services available over the internet via mobile devices and personal computers and increase their market share. We may also face competition from global social networking service providers that seek to enter the China market. Some of our competitors may have longer operating histories and significantly greater financial, technical and marketing resources than we do, and so in turn may have an advantage in attracting and retaining users. If we are not able to effectively compete, our user base and level of user engagement may decrease, which may reduce the number of paying users that purchase our internet value-added services, or IVAS. Similarly, we may be required to spend additional resources to further increase our brand recognition and promote our services in order to compete effectively, especially with respect to marketing other new services to capture market share, which could adversely affect our profitability.

Furthermore, failure of our new financing business to achieve or maintain more widespread market acceptance against our competitors could harm our business and results of operations. Some of our competitors may enjoy greater name recognition or have access to lower cost of funds than we do, particularly commercial banks in China. If we are not able to develop services that are attractive to our target customers and compete effectively, we may not be able to grow our customer base or maintain our margins, which could adversely affect our financial results.

If we fail to continually anticipate user preferences and provide attractive services and applications, we may not be able to increase the size and level of engagement of our SNS user base.

The success of our business depends in part on our ability to grow our SNS user base and keep our users highly engaged. In order to attract and retain users, we must continue to innovate and introduce services and applications that our users find enjoyable. If we fail to anticipate and meet the needs of our users, the size and engagement level of our user base may decrease, as it has done in the last several years. Furthermore, because of the viral nature of social networking, users may switch to our competitors' services more quickly than in other online sectors, despite the fact that it would be time-consuming for them to restart the process of establishing connections with friends and post photos and other content via one of our competitor's services.

We suffered a significant drop in monthly unique log-in users in 2013, and then in average amount of time that unique log-in users spent on our platform in 2014. Our monthly unique log-in users decreased from approximately 41 million in December 2015 to approximately 35 million in December 2016 and then further to approximately 32 million in December 2017. The average amount of time that unique log-in users spent on our platform decreased from approximately 1.8 hours in 2015 to approximately 1.4 hours in 2016 and then increased to approximately 1.6 hours in 2017. Decreases in the number of our users or the amount of time they spend on our platform render our services less attractive to users and may decrease our revenues, which may have a material and adverse effect on our business, financial condition and results of operations.

In addition, since a substantial number of users of our new services and products over the years had already been users of *renren.com* and Renren Mobile App, the two components of our SNS platform, we believe that the new services we may pursue will depend upon our ability to maintain and increase the user base for our SNS platform, the level of user engagement on our platform and the stickiness of our platform. If we are unable to maintain or increase the size and level of engagement of our user base for our SNS platform, the performance of our new services may be materially and adversely affected.

The business opportunities for social networking, internet finance and other internet services in China are continually evolving and may not grow as quickly as expected, in ways that are consistent with other markets, or at all.

Our business and prospects depend on the continual development of emerging internet business models in China, including those for social networking and internet finance. Our main internet services have distinct business models which may differ from models for these businesses in other markets, such as the United States, and that are in varying stages of development and monetization. We cannot assure you that the industries in which we operate in China will continue to grow as rapidly as they have in the past, in ways that are consistent with other markets, or at all. With the development of technology, new internet services may emerge which may render our existing service offerings less attractive to users. The growth and development of the social networking and internet finance industries is affected by numerous factors, such as the macroeconomic environment, regulatory changes, technological innovations, development of internet and internet-based services, users' general online experience, cultural influences and changes in tastes and preferences. If these internet industries do not grow as quickly as expected or at all, or if we fail to benefit from such growth by successfully implementing our business strategies, our business and prospects may be adversely affected.

If we fail to keep up with the technological developments and users' changing requirements, our business and prospects may be materially and adversely affected.

The social networking and internet finance industries are subject to rapid and continual changes in technology, user preferences, such as the movement of our user base from personal computers to mobile devices, the nature of services offered and business models. Our success will depend on our ability to keep up with the changes in technology and user behavior resulting from technological developments. If we do not adapt our services to such changes in an effective and timely manner, we may suffer from decreased user traffic. In addition, if we adopt new technologies which turn out to be less proven, and user experience suffers as a result, our users may use our platform less often. Furthermore, changes in technologies may require substantial capital expenditures in product development as well as in modification of products, services or infrastructure. We may not successfully execute our business strategies due to a variety of reasons such as technical hurdles, misunderstanding or erroneous prediction of market demand or lack of necessary resources. Failure to keep up with technological developments may result in our platform being less attractive, which in turn may materially and adversely affect our business and prospects.

The laws and regulations governing internet financing services in China are evolving and subject to changes. If our practices are deemed to violate any PRC laws or regulations, our business, financial conditions and results of operations would be materially and adversely affected.

China has tightened regulation of internet financing services since mid-2015. The PRC government and relevant regulatory authorities have issued various laws and regulations governing the internet financing service. See "Regulation—Regulations Relating to Internet Financing Service" for details of regulations in this industry.

In July 2015, ten PRC regulatory agencies, including the People's Bank of China, the Ministry of Industry and Information Technology, or the MIIT, and the China Banking Regulatory Commission, jointly issued the Guidelines on Promoting the Healthy Development of Internet Finance, or the Guidelines. In August 2016, four PRC regulatory agencies, including the China Banking Regulatory Commission, the MIIT, the Ministry of Public Security and Cyberspace Administration of China, jointly published the Interim Measures on the Administration of Business Activities of Peer-to-Peer Lending Information Intermediaries, which we refer to as the Interim Measures. According to the Guidelines and the Interim Measures, intermediaries that provide online lending information services may not engage in certain activities, including, among others, (i) fund-raising for the online lending information intermediaries themselves, (ii) holding investors' funds or setting up capital pools with investors' funds, (iii) providing security or guarantee to investors as to the principals and returns of the investment, (iv) issuing or selling any wealth management products, (v) splitting the terms of any financing project, (vi) securitization, (vii) promoting its financial products on physical premises and (viii) equity crowd-funding. The Interim Measures also require the intermediaries that provide online lending information services to strengthen their risk management and enhance screening and verifying efforts on the customers' and investors' information.

Notice on Regulating and Rectifying “Cash Loan” Business, which was released in December 2017, requires network micro loan companies to suspend the funding of micro-loans with no specific consumption scenario or designated use of loan proceeds, gradually reduce the volume of the existing business relating to such loans and take rectification measures in a period to be separately specified by the competent governmental authorities. The Notice on Regulating and Rectifying “Cash Loan” Business also prohibits online lending information intermediaries from facilitating loans with no designated use of loan proceeds. The banking financial institutions are also prohibited from providing loans with no designated use of loan proceeds under the relevant PRC laws and regulations. With respect to the loans that are facilitated through our services and are not borrowed to finance a particular customer purchase, we and lenders require borrowers to select in their loan applications one of the specified permissible uses of loan proceeds, such as purchase of cars, and we have started to take reasonable measures to track the actual use of the loans. However, it is unclear whether such personal loans would be deemed as loans with no designated use of loan proceeds and thus be subject to the foregoing requirement of the Notice on Regulating and Rectifying “Cash Loan” Business. If such personal loans were deemed as loans with no designated use of loan proceeds, the financial institution lenders would also need to take necessary measures to track the actual use of loans and may require us to cooperate with them and upgrade our system, both of which could cause us to incur substantial additional expenses. If we were unable to effectively implement the foregoing or other rectification measures, we might need to reduce or even cease the funding and facilitation of such personal loans, which would cause material and adverse impact on our online loan facilitation service business.



In addition to the Guidelines, the Interim Measures and the Notice on Regulating and Rectifying “Cash Loan” Business, there are certain other rules, laws and regulations relevant or applicable to the internet financing service industry, including the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People’s Court. See “Regulation—Regulations on Internet Finance Services.” Due to the lack of detailed rules and the fact that the rules, laws and regulations are expected to continue to evolve in this newly emerging industry, we cannot be certain if any of our existing practices would be deemed to be within the scope of such rules, laws and regulations relevant or applicable to the online peer-to-peer lending service industry and, as such, would not be deemed to violate any existing or future rules, laws and regulations.

The size and level of Renren user engagement on mobile devices depend upon effective operation with mobile operating systems, networks, and standards that we do not control.

We are dependent on the interoperability of Renren with popular mobile operating systems that we do not control, such as iOS, Android and Windows, and any changes in such systems that degrade our products’ functionality or give preferential treatment to competitive products could adversely affect Renren usage on mobile devices. Additionally, in order to deliver high quality mobile products, it is important that our products work well with a range of mobile technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our users to access and use Renren on their mobile devices, or if our users choose not to access or use Renren on their mobile devices or use mobile products that do not offer access to Renren, our user engagement could be harmed.

If we fail to maintain and enhance our Renren and other brands, or if we incur excessive expenses in this effort, our business, results of operations and prospects may be materially and adversely affected.

We believe that maintaining and enhancing our Renren and other brands is of significant importance to the success of our business. Well-recognized brands are critical to increasing the number and the level of engagement of our users. Since we operate in a highly competitive market, maintaining and enhancing our brands directly affects our ability to maintain our market position. We have conducted and may continue to conduct various marketing and brand promotion activities, both through cooperation with our business partners and through more traditional methods, such as television advertisements. We cannot assure you, however, that these activities will be successful or that we will be able to achieve the brand promotion effect we expect. In addition, any negative publicity in relation to our services or products, regardless of its veracity, could harm our brands and the perception of our brands in the market.

During the course of the audit of our consolidated financial statements, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting. If we fail to re-establish and maintain an effective system of internal control over financial reporting, our ability to accurately and timely report

our financial results or prevent fraud may be adversely affected, and investor confidence and the market price of our ADSs may be adversely impacted.

We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, adopted rules pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting.

We and our independent registered public accounting firm, in connection with the preparation and external audit of our consolidated financial statements for the year ended December 31, 2015, identified two material weaknesses in our internal control over financial reporting. 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 were related to (i) lack of implementation of adequate supervisory review controls over the accounting and measurement of complex investments; and (ii) lack of implementation of effective control activities over the then newly launched internet finance business to ensure the timely communication of sufficient information to the financial reporting team for certain accounting matters. Accordingly, we hired additional staff with relevant accounting experience, skills and knowledge in the preparation of financial statements under the requirement of U.S. GAAP to internet finance business, and updated our internet finance accounting policies and procedures manual in accordance with U.S. GAAP in 2015.

We and our independent registered public accounting firm, in connection with the preparation and external audit of our consolidated financial statements for the year ended December 31, 2016, identified a material weakness related to inadequate controls designed over the accounting and measurement of investments and the proposed complex transactions relating to the disposition of investment assets, to ensure that these transactions are accounted for in conformity with U.S. GAAP. We refer to these proposed complex transactions as the Transaction. See "Item 4. Information on the Company—A. History and Development of the Company—The Transaction." Following the identification of the material weakness, we took measures to remedy it. Specifically, on December 22, 2016, our board of directors formed a special committee to evaluate the fairness of the Transaction and ultimately to decide whether to approve it, and the special committee further retained an external financial advisor and external U.S. counsel to review the Transaction and to ensure that the measurement of the investments involved was performed properly. Accordingly, as of December 31, 2017, we concluded that the material weakness related to the measurement of investment assets and the Transaction had been remediated.

We and our independent registered public accounting firm, in connection with the preparation and external audit of our consolidated financial statements for the year ended December 31, 2017, identified a material weakness related to inadequate controls designed over the accounting of significant, unusual and complex transactions to ensure that those transactions are properly accounted for in accordance with U.S. GAAP. See “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.” Measures that we implement to address this material weakness and other control deficiencies in our internal control over financial reporting might not fully address them, and we might not be able to conclude that they have been fully remedied.

Failure to correct the material weakness and other control deficiencies or failure to discover and address any other control deficiencies could result in inaccuracies in our consolidated financial statements and could also impair our ability to comply with applicable financial reporting requirements and make related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially and adversely affected. Due to the material weakness in our internal control over financial reporting as described above, our management concluded that our internal control over financial reporting was not effective as of December 31, 2017. This could adversely affect the market price of our ADSs due to a loss of investor confidence in the reliability of our reporting processes.

In addition, we excluded certain recent acquisitions from the scope of our management’s evaluation of internal control over financial reporting, in line with SEC guidance and as described in “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.” If we had not done so, it is possible that we would have had more than one material weakness as of December 31, 2017. If we do not identify and resolve any material weaknesses that may be related to these acquisitions, then we may be unable to conclude that our internal control over financial reporting is effective as of December 31, 2018.

The continuing and collaborative efforts of our senior management, key employees and highly skilled personnel are crucial to our success, and our business may be harmed if we were to lose their services.

Our success depends on the continuous effort and services of our experienced senior management team, in particular Mr. Joseph Chen, our founder, chairman and chief executive officer, and Mr. James Jian Liu, our executive director and chief operating officer. If one or more of our executive officers or other key personnel are unable or unwilling to continue to provide us with their services, we may not be able to replace them easily or at all. Our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected. Competition for management and key personnel is intense and the pool of qualified candidates is limited. We may not be able to retain the services of our executive officers or key personnel, or attract and retain experienced executive officers or key personnel in the future. If any of our executive officers or key employees join a competitor or forms a competing company, we may lose know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us, which contains non-competition provisions. However, if any dispute arises between us and our executive officers or key employees, these agreements may not be enforceable in China, where these executive officers and key employees reside, in light of uncertainties relating to

China's laws and legal system. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.”

Our performance and future success also depend on our ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Competition in the SNS and used automobile industries for qualified employees, including technical personnel capable of designing innovative services and products, is intense, and if competition in these industries further intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we do not succeed in attracting additional highly skilled personnel or retaining or motivating our existing personnel or if we must incur significantly greater expenses to recruit, train and retain personnel, we may be unable to grow effectively or at all.

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

The PRC government has adopted regulations governing internet access and the distribution of information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent or defamatory. Furthermore, internet content providers are also prohibited from displaying content that may be deemed by relevant government authorities as “socially destabilizing” or leaking state secrets of the PRC. Failure to comply with these requirements may result in fines, the revocation of licenses to provide internet content and other licenses, the closure of the concerned websites and reputational harm. In April 2015, we were fined RMB 50,000 (US\$7,685) after certain user uploaded content was deemed to be obscene. The website operator may also be held liable for such censored information displayed on or linked to their website. For a detailed discussion, see “Item 4.B—Business Overview—Regulation—Regulations on Value-Added Telecommunications Services,” “Item 4.B—Business Overview—Regulation—Regulations on Internet Content Services” and “Item 4.B—Business Overview—Regulation—Regulations on Information Security.”

Through our SNS platform, we allow users to upload content on our platform, including via message boards, blogs, email, chat rooms, or image-sharing webpages, and also allow users to share, link to and otherwise access audio, video and other content from other websites. In addition, we allow users to download, share and otherwise access games and other applications on and through our platform, including through our Renren Open Platform program. After a user registers and before each upload, we require the user to click a box to confirm that the user has read and agreed to be bound by our copyright agreement. Pursuant to the copyright agreement, the user warrants that the content to be uploaded does not violate any laws or regulations or any third-party rights. If we discover that any uploaded content is inappropriate, we can delete or revise the content, or terminate the user account. In addition, we remove user uploads when we are notified or made aware, by copyright owners or from other sources, of copyright infringements or other illegal uploads. For a description of how content can be accessed on or through our SNS platform, and what measures we take to lessen the likelihood that we will be held liable for the nature of such content, see and “—Risks Related to Our Business and Industry—We have been and may continue to be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to our websites or distributed to our users, which may materially and adversely affect our business, financial condition and prospects.”

Our live streaming services enable performers to broadcast their performances live over the internet. We have a team of employees who monitor the content of these performances to identify and shut down any performances that violate the applicable laws or regulations. If we fail to identify an illegal performance as it is occurring or fail to take appropriate action at that time, we may be held liable for it.

Failure to identify and prevent illegal or inappropriate content from being displayed on or through our websites for internet users or mobile users may subject us to liability or reduce our revenues. In addition, these laws and

regulations are subject to interpretation by the relevant authorities, and it may not be possible to determine in all cases the types of content that could result in our liability as a website operator. To the extent that PRC regulatory authorities find any content displayed on or through our websites objectionable, they may require us to limit or eliminate the dissemination or availability of such content on our websites in the form of take-down orders or otherwise. Such regulatory authorities may also impose penalties on us based on content displayed or made available through our websites in cases of material violations, including a revocation of our operating licenses or a suspension or shutdown of our online operations, which would materially and adversely affect our business, results of operations and reputation. Moreover, the costs of compliance with these regulations may continue to increase as a result of more content being uploaded or made available by an increasing number of users and third-party partners and developers.

Concerns about collection and use of personal data could damage our reputation and deter current and potential users from using our services.

As of December 31, 2017, our platform had accumulated a total of approximately 7.5 billion photos and 45.5 billion comments or reviews. Under our privacy policy, we will not provide any of our users' personal information to any unrelated third party without our users' prior consent. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information can be shared may adversely affect our ability to share data. Concerns about the security of personal data could also lead to a decline in general internet usage, which could lead to lower user traffic on our platform. A significant reduction in user traffic could lead to lower IVAS revenues, which could have a material adverse effect on our business, financial condition and results of operations.

We could be liable for any breach of security relating to our payment platforms or the third-party online payment platforms we use, and concerns about the security of internet transactions could damage our reputation, deter current and potential users from using our platform and have other adverse consequences to our business.

Currently, we sell a substantial portion of our virtual currency and other paid services and applications to our users through third-party online payment platforms using the internet or mobile networks. In all these online payment transactions, secured transmission of confidential information over public networks is essential to maintain consumer confidence. In addition, we expect that an increasing amount of our sales will be conducted over the internet as a result of the growing use of online payment systems. As a result, associated online fraud will likely increase as well. Our current security measures and those of the third parties with whom we transact business may not be adequate. We must be prepared to increase and enhance our security measures and efforts so that our users have confidence in the reliability of the online payment systems that we use, which will impose additional costs and expenses and may still not guarantee complete safety. In addition, we do not have control over the security measures of our third-party online payment vendors. Although we have not in the past experienced material security breaches of the online payments that we use, such security breaches could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of the online payment systems that we use.

Spammers and malicious applications may make our services less user-friendly.

Spammers may use our platform and services to send targeted and untargeted spam messages to users, which may embarrass or annoy users and make usage of our services and networks more time-consuming and less user-friendly. As a result, our users may use our services less or stop using them altogether. As part of fraudulent spamming activities, spammers typically create multiple user accounts, such as accounts being set-up for the purposes of sending spam messages. Although we have technologies and employees that attempt to identify and delete accounts created for spamming purposes, we may not be able to eliminate all spam messages from being sent on our platform.

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

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our websites to ensure that such content is true and accurate and in full compliance with applicable laws and regulations. In addition, where a special government review is required for specific types of advertisements prior to website posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations by us, PRC governmental authorities may force

us to terminate our advertising operations or revoke our licenses.

While significant efforts have been made to ensure that the advertisements shown on our websites are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements or offers is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Online communications among our users may lead to personal conflicts, which could damage our reputation, lead to government investigation and have a material and adverse effect on our business.

Our users engage in highly personalized exchanges over our platform. Users who have met online through our services may become involved in emotionally charged situations and could suffer adverse moral, emotional or physical consequences. Such occurrences could be highly publicized and have a significant negative impact on our reputation. Government authorities may require us to discontinue or restrict those services that would have led, or may lead, to such events. As a result, our business may suffer and our user base, revenues and profitability may be materially and adversely affected.



We rely on third parties to provide a number of important services in connection with our business, and any disruption to the provision of these services to us could materially and adversely affect our business and results of operations.

Our business is to a significant extent dependent upon services provided by third parties and business relationships with third parties.

In our financing business, we work with third parties who provide us data concerning creditworthiness, identification and other relevant information that we use to review and select qualified borrowers. If this information becomes more expensive to access or becomes unavailable, our costs would increase or we may need to find alternative sources. If this information is outdated, incomplete or inaccurate, we might incorrectly judge borrowers' actual creditworthiness, and we might approve unqualified borrowers or disapprove qualified borrowers. As a result, we may inaccurately price the loans that we facilitated and our control over our default rates would be adversely affected, which would harm our business.

To strengthen risk control, we also outsource some functions of our business to third parties. They verify the authenticity of the materials borrowers provide, perform due diligence on target companies, do examinations after providing loans, do asset supervision and collect late payments. These partners may not perform as expected under our agreements with them, and it is difficult for us to monitor and supervise their performance. If they increase the price they charge to work with us, our costs would increase or we would have to look for other partners. There is also a risk of unclear allocation of responsibilities, which could cause inefficiencies and delays. If we cannot maintain effective relationships with these third parties, our business will also be harmed.

If the third parties on whom we rely fail to provide their services effectively, terminate their service or license agreements or discontinue their relationships with us, we could suffer service interruptions, reduced revenues or increased costs, any of which may have a material adverse effect on our business, financial condition and results of operations. Certain third-party service providers could be difficult and costly to replace, and any disruption to the provision of these services to us may have a material adverse effect on our business, financial condition and results of operations.

Our operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China.

Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local

telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our websites. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, our user traffic may decline and our business may be harmed.

Changes in the policies, guidelines or practice of mobile network operators or the PRC government with respect to mobile applications and other content may negatively affect our business operations for mobile applications.

We rely on PRC mobile network operators, directly and indirectly, to distribute our products to our users. The mobile telecommunication business in China is highly concentrated and major mobile network operators, such as China Mobile, may from time to time issue new policies or change their business practices, requesting or stating their preferences for certain actions to be taken by all mobile service providers using their networks. In addition, the PRC government may also implement new policies or change existing policies regulating the mobile telecommunication business. Such new policies or changes may negatively affect our business operations for mobile applications.

Problems with our network infrastructure or information technology systems could impair our ability to provide services.

Our ability to provide our users with a high quality online experience depends on the continuing operation and scalability of our network infrastructure and information technology systems. We face a number of risks in this area. For example, our systems are potentially vulnerable to damage or interruption as a result of natural disasters, power loss, telecommunications failures and similar events. We may also encounter problems when upgrading our systems or services and undetected programming errors could adversely affect the performance of the software we use to provide our services. In addition, we rely on servers, data centers and other network facilities provided by third parties, and the limited availability of third-party providers with sufficient capacity to house additional network facilities and broadband capacity in China may lead to higher costs or limit our ability to offer certain services or expand our business.

These and other events have led and may in the future lead to interruptions, decreases in connection speed, degradation of our services or the permanent loss of user data and uploaded content. If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of third-party service providers, our reputation or relationships with our users may be damaged and our users may switch to our competitors, which may have a material adverse effect on our business, financial condition and results of operations.

Computer malware, viruses, hacking and phishing attacks, and spamming could harm our business and results of operations.

Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry and may occur on our systems in the future. For example, in December 2011, through hacking a third-party CDN provider, a computer hacker was able to access the data of over six million internet users from a number of major internet websites in China, including our website. We responded to this incident by notifying our users of the incident and advising them to change their log-in details. Because the techniques used by hackers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. Any failure to maintain performance, reliability, security, and availability of our products and technical infrastructure to the satisfaction of our users may harm our reputation and our ability to retain existing users and attract new users. Our business could be subject to significant disruption and our results of operations may be affected.

In addition, spammers attempt to use our products to send targeted and untargeted spam messages to users, which may embarrass or annoy users and make our internet platform less user-friendly. We cannot be certain that the technologies and employees that we have to attempt to defeat spamming attacks will be able to eliminate all spam messages from being sent on our platform. As a result of spamming activities, our users may use our internet platform less or stop

using our products altogether.

We have been and may continue to be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to our websites or distributed to our users, which may materially and adversely affect our business, financial condition and prospects.

Internet, technology and media companies are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties' rights. The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we face a higher risk of being the subject of intellectual property infringement claims. For example, in November 2014, a digital entertainment copyright agency company filed a complaint with Apple's Appstore claiming copyright infringement of their clients' musical works by *renren.com's* Renren Radio service. Pursuant to Apple's dispute resolution policy, our Renren Mobile App was temporarily removed from Apple's Appstore, and it was restored after our timely response to the claimant resolved the dispute.

Intellectual property claims and litigation are expensive and time-consuming to investigate and defend, and may divert resources and management attention from the operation of our business. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our websites to reduce the risk of future liability, may have a material adverse effect on our business, financial condition and prospects.

We may be subject to patent infringement claims with respect to our SNS platform.

Our technologies and business methods, including those relating to our SNS platform, may be subject to third-party claims or rights that limit or prevent their use. Certain U.S.-based companies have been granted patents in the United States relating to SNS platforms and similar business methods and related technologies. While we believe that we are not subject to U.S. patent laws since we conduct our business operations outside of the United States, we cannot assure you that U.S. patent laws would not be applicable to our business operations, or that holders of patents relating to a SNS platform would not seek to enforce such patents against us in the United States or China. For example, we are aware that Facebook applied for a number of patents relating to its social networking system and methodologies, platform and other related technologies. In addition, many parties are actively developing and seeking protection for internet-related technologies, including seeking patent protection in China. There may be patents issued or pending that are held by others that relate to certain aspects of our technologies, products, business methods or services. Although we do not believe we infringe third-party patents, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and involve uncertainty. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were sued for patent infringement claims with respect to our SNS platform and were found to infringe such patents and were not able to adopt non-infringing technologies, we may be severely limited in our ability to operate our SNS platform, which would have a material adverse effect on our results of operations and prospects.

Our own intellectual property rights may be infringed, which could materially and adversely affect our business and results of operations.

We rely on a combination of monitoring and enforcement of trademark, patent, copyright and trade secret protection laws in the PRC and other jurisdictions, as well as through confidentiality agreements and procedures, to protect our intellectual property rights. Despite our precautions, third parties may obtain and make unauthorized use of our intellectual property, which includes trademarks related to our brands, products and services, patent applications, registered domain names, copyrights in software and creative content, trade secrets and other intellectual property rights and licenses. Historically, the legal system and courts of the PRC have not protected intellectual property rights to the same extent as the legal system and courts of the United States, and companies operating in the PRC continue to face an increased risk of intellectual property infringement. Furthermore, the validity, application, enforceability and scope of protection of intellectual property rights for many internet-related activities, such as internet commercial methods patents, are uncertain and still evolving in China and abroad, which may make it more difficult for us to protect our intellectual property and could have a material adverse effect on our business, financial condition and results of operations.

We have granted, and may continue to grant, share options and restricted shares under our equity incentive plans, which may result in increased share-based compensation expenses.

We have adopted five equity incentive plans for Renren Inc. in 2006, 2008, 2009, 2011 and 2016. As of February 28, 2018, options to purchase a total of 149,711,391 ordinary shares of Renren Inc. were outstanding. For the years ended December 31, 2015, 2016 and 2017, we recorded US\$28.2 million, US\$23.5 million and US\$28.0 million, respectively, in share-based compensation expenses. As of December 31, 2017, we had US\$22.1 million of unrecognized share-based compensation expenses relating to share options, which are expected to be recognized over a weighted average vesting period of 1.7 years, and US\$10.3 million of unrecognized share-based compensation expenses relating to non-vested restricted shares, which are expected to be recognized over a weighted average vesting period of 2.1 years. On August 24, 2017, our compensation committee approved a reduction in the exercise price for all outstanding options previously granted by our company with an exercise price higher than \$0.478 per ordinary share to \$0.478 per share. We accounted for this reduction as a share option modification which required the remeasurement of these share options at the time of the modification. The total incremental cost as a result of the modification was US\$10.4 million. The incremental cost related to vested options amounted to US\$7.4 million and was recorded in the consolidated statements of operations during the year ended December 31, 2017. The incremental cost related to unvested options amounted to US\$3.0 million and will be recorded over the remaining service period. We believe the granting of share options and restricted shares is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share options and restricted shares to key personnel and employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

Our quarterly revenues and operating results may fluctuate, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.

Our quarterly revenues and operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are out of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause the price of our ADSs to fall. Other factors that may affect our financial results include, among others:

- global economic conditions;
- our ability to enhance user experience and maintain and increase user traffic;
- the growth of the social networking industry in China;
- our ability to monetize the mobile versions of our applications and services;
- our ability to develop financing services;
- the growth of the internet finance industry in China;
- the growth of the used automobile industry in China;
- competition in our industries in China;
- changes in government policies or regulations, or their enforcement;
- geopolitical events or natural disasters such as war, threat of war, earthquake or epidemics;
- losses from or impairment of our equity method investments; and

decreases in market value or impairment of our marketable securities.

Seasonal fluctuations and industry cyclicality have affected, and are likely to continue to affect, our financing business. See “Item 4. Information on the Company—Seasonality.” We expect that seasonal fluctuations and industry cyclicality will continue to cause our quarterly and annual operating results to fluctuate.

We have limited business insurance coverage.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence of business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.



## Risks Related to Our Corporate Structure and the Regulation of our Business

If the PRC government finds that the agreements that establish the structure for operating our services in China do not comply with PRC governmental restrictions on foreign investment in internet businesses, 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.

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in internet businesses, including the provision of social networking services. Specifically, foreign ownership of internet service providers or other value-added telecommunication service providers may not exceed 50%. In addition, according to the Several Opinions on the Introduction of Foreign Investment in the Cultural Industry promulgated by the Ministry of Culture, the State Administration of Radio, Film and Television, or the SARFT, the General Administration of Press and Publication, or the GAPP, the National Development and Reform Commission and the Ministry of Commerce in June 2005, foreign investors are prohibited from investing in or operating any internet cultural operating entities.

We conduct our SNS and live streaming operations in China principally through a set of contractual arrangements between our wholly owned PRC subsidiary, Qianxiang Shiji Technology Development (Beijing) Co., Ltd., or Qianxiang Shiji, and its consolidated affiliated entity, Beijing Qianxiang Tiancheng Technology Development Co., Ltd., or Qianxiang Tiancheng, and Qianxiang Tiancheng's shareholders. Beijing Qianxiang Wangjing Technology Development Co., Ltd., or Qianxiang Wangjing, is Qianxiang Tiancheng's wholly owned subsidiary and the operator of our *renren.com* website and holds the licenses and permits necessary to conduct our SNS and online advertising business in China.

We conduct our financing business operations in China principally through a set of contractual arrangements between our wholly owned PRC subsidiary, Shanghai Renren Automobile Technology Development Co., Ltd., or Renren Automobile, and its consolidated affiliated entity, Shanghai Qianxiang Changda Internet Information Technology Development Co., Ltd., or Qianxiang Changda, and Qianxiang Changda's shareholders.

We conduct our used automobile dealership operations in China principally through a set of contractual arrangements between Renren Automobile and its consolidated affiliated entity, Shanghai Jieying Automobile Sales Co., Ltd., or Shanghai Jieying, and Shanghai Jieying's shareholders.

We hold most of our minority equity investments in the PRC through another set of contractual arrangements between our wholly owned PRC subsidiary, Qianxiang Lianhe Technology Development (Beijing) Co., Ltd., or Qianxiang

Lianhe, and its consolidated affiliated entity, Beijing Qianxiang Yixin Technology Development Co., Ltd., or Qianxiang Yixin, and Qianxiang Yixin's shareholders.

Our contractual arrangements described above enable us to exercise effective control over Qianxiang Tiancheng, Qianxiang Changda, Shanghai Jieying and Qianxiang Yixin, as well as their respective subsidiaries, and hence we treat these entities as our consolidated affiliated entities and consolidate their results. For a detailed discussion of these contractual arrangements, see "Item 4.C—Information on the Company—Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities."

Based on the advice of TransAsia Lawyers, our PRC legal counsel, the corporate structure of our consolidated affiliated entities and our subsidiaries in China comply with all existing PRC laws and regulations. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, we cannot assure you that the PRC government would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations. If the PRC government determines that we do not comply with applicable laws and regulations, it could:

- revoke the business and operating licenses of our subsidiaries, our consolidated affiliated entities and their subsidiaries;

- discontinue or restrict any related-party transactions between our subsidiaries, our consolidated affiliated entities and their subsidiaries;

- impose fines on us or impose additional conditions or requirements on us with which we may not be able to comply;

- require us to revise our ownership structure or restructure our operations; and

- restrict or prohibit our use of the proceeds of any additional public offering to finance our business and operations in China.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business. If any of these penalties results in our inability to direct the activities of our consolidated affiliated entities and the subsidiaries that most significantly impact their economic performance, or results in our failure to receive the economic benefits from our consolidated affiliated entities and their subsidiaries, we may not be able to consolidate the consolidated affiliated entities and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. In the fiscal years ended December 31, 2015, 2016 and 2017, our consolidated affiliated entities and their subsidiaries contributed in the aggregate 94.9%, 97.8% and 89.7%, respectively, of our consolidated net revenues.

We rely on contractual arrangements with consolidated affiliated entities for our China operations, which may not be as effective in providing operational control as direct ownership. Any failure by our affiliated entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business and financial condition.

We have relied and expect to continue to rely on contractual arrangements with our affiliated entities to operate our businesses in China. For a description of these contractual arrangements, see “Item 4.C—Information on the Company—Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities.” These contractual arrangements may not be as effective in providing us with control over these affiliated entities as direct ownership. If we had direct ownership of our consolidated affiliated entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of each of these entities, 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 consolidated affiliated entities and their respective shareholders of their obligations under their respective contracts to exercise control over our affiliated entities. Therefore, our contractual arrangements with our affiliated entities may not be as effective in ensuring our control over our China operations as direct ownership would be.

If our consolidated affiliated entities or their respective shareholders fail to perform their respective obligations under the contractual arrangements of which they are a party, we may have to incur substantial costs and resources to enforce our rights under the contracts, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages, which may not be effective. For example, if the shareholders of our consolidated affiliated entities were to refuse to transfer their equity interests in our consolidated affiliated entities to us or our designee when we exercise the call option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to perform their respective contractual obligations.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in 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. Under PRC law, rulings by arbitrators are final, parties cannot

appeal the arbitration results in courts, and the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would incur additional expenses and delay. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our affiliated entities, and our ability to conduct our business may be severely and negatively affected.

Contractual arrangements our subsidiaries have entered into with our consolidated affiliated entities may be subject to scrutiny by the PRC tax authorities, and a finding that we or our consolidated affiliated entities owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions between related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between our wholly owned subsidiaries in China and our consolidated affiliated entities in China do not represent arm's-length prices and consequently adjust our consolidated affiliated entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our consolidated affiliated entities for PRC tax purposes, which could in turn increase their respective tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties on our consolidated affiliated entities for any unpaid taxes. Our consolidated net income may be materially and adversely affected if our affiliated entities' tax liabilities increase or if they are subject to late payment fees or other penalties.

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

The shareholders of our consolidated affiliated entities include Ms. Jing Yang, Mr. James Jian Liu, Mr. Thomas Jintao Ren and Ms. Rita Rui Yi. Ms. Jing Yang is a shareholder of Qianxiang Tiancheng, Qianxiang Changda and Qianxiang Yixin; Mr. James Jian Liu is a shareholder of Qianxiang Tiancheng, Qianxiang Changda, Qianxiang Yixin and Guangzhou Xiuxuan Brokers Co., Ltd., or Guangzhou Xiuxuan; and Mr. Thomas Jintao Ren and Ms. Rita Rui Yi are the shareholders of Shanghai Jieying.

Ms. Jing Yang is the wife of Mr. Joseph Chen, our founder, chairman and chief executive officer; Mr. James Jian Liu is our executive director and chief operating officer; Mr. Thomas Jintao Ren is our chief financial officer; and Ms. Rita Rui Yi is our vice president in charge of human resources.

Conflicts of interest may arise between the dual role of Mr. James Jian Liu as a director and officer of our company and as shareholder of our consolidated affiliated entities Qianxiang Tiancheng, Qianxiang Changda, Qianxiang Yixin and Guangzhou Xiuxuan.

Conflicts of interest may also arise between the interests of Ms. Jing Yang as shareholder of Qianxiang Tiancheng, Qianxiang Changda and Qianxiang Yixin and as the wife of our founder and chief executive officer. Furthermore, if Ms. Jing Yang experiences domestic conflict with Mr. Joseph Chen, she may have little or no incentive to act in the interest of our company, and she may not perform her obligations under the contractual arrangements she has entered into with Qianxiang Shiji, Renren Automobile and Qianxiang Lianhe.

Conflicts of interest may arise between the dual role of both Mr. Thomas Jintao Ren and Ms. Rui Yi as officers of our company and as shareholders of our consolidated affiliated entity Shanghai Jieying.

Officers of our company owe a duty of loyalty and care to our company and to our shareholders as a whole under Cayman Islands law. We cannot assure you, however, that when conflicts arise, shareholders of our consolidated affiliated entities will act in the best interests of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

Substantial uncertainties exist with respect to the enactment timetable, final scope, interpretation and implementation of the draft PRC Foreign Investment Law published for public comments and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft 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 investments. The Ministry of Commerce solicited comments on this draft in 2015, but no timetable has been published as to when it will be enacted. As such, substantial uncertainties exist with respect to its enactment timetable, final scope, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise, or an FIE. The draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the Ministry of Commerce, treated as a PRC domestic investor provided that the entity is “controlled” by PRC entities and/or citizens. In this connection, “control” is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% of more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to material influence on the board, the shareholders’ meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “negative list,” to be separately issued by the State Counsel later, if the FIE is engaged in the industry listed in the negative list. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance by the Ministry of Commerce, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “If the PRC government finds that the agreements that establish the structure for operating our services in China do not comply with PRC governmental restrictions on foreign investment in internet businesses, 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 4.C—Information on the Company—Organizational Structure.” Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the “negative list,” the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal. There are uncertainties as to whether the Foreign Investment Law, once it is enacted, will have retrospective effect on existing VIE structures such as ours, or whether it will grant real and full grandfathering and grace periods for such existing VIE structures.

It is likely that we would not be considered as ultimately controlled by Chinese parties, as our U.S. record shareholders hold over 50% of our total voting power. The draft Foreign Investment Law has not taken a position on what actions will be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, while it is soliciting comments from the public on this point. Moreover, it is uncertain whether the internet industry, in which our variable interest entities operate, will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued. The value-added telecommunication services, which we conduct through our VIEs, is subject to foreign investment restrictions set forth in the Catalogue for the Guidance of Foreign Investment Industries issued by the National Development and Reform Commission and the Ministry of Commerce in March, 2017, or the Catalogue. It is unclear whether the new “negative list” will be different from the Catalogue. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as Ministry of Commerce market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with existing VIE structure like us, we face substantial uncertainties as to whether these actions can be timely completed, or at all, and our business and financial condition may be materially and adversely affected.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

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. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends and other distributions on equity to be paid by our wholly owned PRC subsidiaries, particularly Qianxiang Shiji, 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 our wholly owned 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, wholly foreign-owned enterprises in the PRC such as Qianxiang Shiji may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise such as Qianxiang Shiji is required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of their registered capital. At their discretion, they may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.



Any limitation on the ability of our wholly owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using funds that we hold offshore to make loans to our PRC subsidiaries and consolidated affiliated entities or to make additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and consolidated affiliated entities. We may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries.

Any loans by us to our PRC subsidiaries, 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 owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE. If we decide to finance our wholly owned PRC subsidiaries by means of capital contributions, these capital contributions must be approved by the Ministry of Commerce or its local counterpart. Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to our consolidated affiliated entities, which are PRC domestic companies. Further, we are not likely to finance the activities of our consolidated affiliated entities by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in social networking services, online advertising and related businesses.

SAFE promulgated a circular in November 2010, known as Circular No. 59, which tightens the examination of the authenticity of settlement of net proceeds from our initial public offering and requires that the settlement of net proceeds shall be in accordance with the description in the prospectus included in our registration statement on Form F-1 (Registration No. 333-173548), which was filed with the SEC in connection with our initial public offering. In March 2015, SAFE issued the Circular on Reform of the Administrative Rules of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which became effective on June 1, 2015. Pursuant to SAFE Circular 19, foreign-invested enterprises may either continue to follow the current payment-based foreign currency settlement system or choose to follow the “conversion-at-will” system for foreign currency settlement. Where a foreign-invested enterprise follows the conversion-at-will system for foreign currency settlement, it may convert part or all of the amount of the foreign currency in its capital account into Renminbi at any time. The converted Renminbi will be kept in a designated account labeled as settled but pending payment, and if the foreign-invested enterprise needs to make payment from such designated account, it still needs to go through the review process with its bank and provide necessary supporting documents. SAFE Circular 19, therefore, has substantially lifted the restrictions on the usage by a foreign-invested enterprise of its Renminbi registered capital converted from foreign currencies. According to SAFE Circular 19, such Renminbi capital may be used at the

discretion of the foreign-invested enterprise and SAFE will eliminate the prior approval requirement and only examine the authenticity of the declared usage afterwards. Nevertheless, foreign-invested enterprises like our PRC subsidiaries are still not allowed to extend intercompany loans to our VIEs. In addition, as SAFE Circular 19 was promulgated recently, there remain substantial uncertainties with respect to the interpretation and implementation of this circular by relevant authorities.

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 by us to our PRC subsidiaries or consolidated affiliated entities or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use funds we hold offshore 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.

Changes in government policies or regulations may have material and adverse impact on our business, financial condition and results of operations.

Our social networking services are subject to strict government regulations in the PRC. Under the current PRC regulatory scheme, a number of regulatory agencies, including the MIIT, the Ministry of Culture, the State Administration for Press, Publication, Radio, Film and Television and the State Council Information Office jointly regulate all major aspects of the internet industry, including the SNS industry. Operators must obtain various government approvals and licenses prior to the commencement of SNS operations, including an internet content provider license, or ICP license, an online culture operating permit, and a value-added telecommunication services license.

We have obtained a value-added telecommunication service license, an ICP license, and an online culture operating permit for our SNS website. If the PRC government promulgates new laws and regulations that require additional licenses or imposes additional restrictions on the operation of SNS and/or other services we plan to launch, to the extent we may not be able to obtain these licenses, our results of operations may be materially and adversely affected. In addition, the PRC government may promulgate regulations restricting the types and content of advertisements that may be transmitted online, which could have a direct adverse impact on our business.

Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licenses or change our current business model.

In October 2007, we launched “Renren Beans,” a virtual currency that can be used to purchase any of our IVAS or other paid services and applications for users, and in March 2016, we also launched “Renren Points,” a virtual currency that can be used to purchase any of our mobile live streaming services. Due to the relatively short history of virtual currency in China, the regulatory framework governing the industry is still under development. Currently, the PRC government has not promulgated any specific rules, laws or regulations to directly regulate virtual currency, except for online game virtual currency. The Notice on the Strengthening of the Administration on Online Game Virtual Currency, jointly issued by the Ministry of Culture and the Ministry of Commerce in 2009, broadly defined virtual currency as a type of virtual exchange instrument issued by internet game operation enterprises, purchased directly or indirectly by the game users by exchanging legal currency at a certain exchange rate, saved outside the game programs, stored in servers provided by the internet game operation enterprises in electronic record format and represented by specific numeric units. Virtual currency is used to exchange internet game services provided by the issuing enterprise for a designated extent and time, and is represented by several forms, such as online prepaid game cards, prepaid amounts or internet game points, and does not include game props obtained from playing online games. In 2009, the Ministry of Culture further promulgated the Filing Guidelines on Online Game Virtual Currency Issuing Enterprises and Online Game Virtual Currency Trading Enterprises, which specifically defines “issuing enterprise” and “trading enterprise” and stipulates that a single enterprise may not operate both types of business. There are uncertainties as to how these online game virtual currency regulations would apply to Renren Beans as well as to Renren Points. Further, although we believe we do not offer online game virtual currency trading services, we cannot assure you that

the PRC regulatory authorities will not take a view contrary to ours, in which case these regulations could have an adverse effect on our “Renren Beans” and “Renren Points” related revenues.

Substantial uncertainties exist with respect to the interpretation and implementation of the Cyber Security Law as well as any impact it may have on our business operations.

In July 2015, the Standing Committee of the National People’s Congress of China issued the National Security Law, which came into effect on the same day. The National Security Law provides that the state shall safeguard sovereignty, security and development interests of cyberspace in the state, and the state shall establish a national security review and supervision system to review including foreign investment, key technologies, internet and information technology products and services and other important activities that are likely to impact the national security of China.

The Cyber Security Law, which was issued by the Standing Committee of the National People’s Congress of China and became into effect on June 1, 2017, is the first Chinese law that focuses exclusively on cyber security. The Cyber Security Law provides that network operators must set up internal security management systems that meet the requirements of a classified protection system for cybersecurity, including appointing dedicated cybersecurity personnel, taking technical measures to prevent computer viruses, network attacks and intrusions, taking technical measures to monitor and record network operation status and cybersecurity incidents, and taking data security measures such as data classification, backup and encryption. The Cybersecurity Law also imposes a relatively vague but broad obligation to provide technical support and assistance to the public and state security authorities in connection with criminal investigations or for reasons of national security. The Cybersecurity Law also requires network operators that provide network access or domain name registration services, landline or mobile phone network access, or that provide users with information publication or instant messaging services, to require users to provide a real identity when they sign up.

The Cyber Security Law sets high requirements for the operational security of facilities deemed to be part of the PRC's "critical information infrastructure." These requirements include data localization, i.e., storing personal information and important business data in China, and national security review requirements for any network products or services that may have an impact on national security. Among other factors, "critical information infrastructure" is defined as critical information infrastructure that will, in the event of destruction, loss of function or data leak, result in serious damage to national security, the national economy and people's livelihood, or the public interest. Specific reference is made to key sectors such as public communication and information services, energy, transportation, water-resources, finance, public service and e-government. However, no official guidelines as to the scope of "critical information infrastructure" have been formally issued.

We do not believe that we are an operator of "critical information infrastructure" as defined in the Cyber Security Law. However, there is no assurance that we may not be considered an operator of "critical information infrastructure" in the future as the definition is not precise, and there are substantial uncertainties as to the law's ultimate interpretation and implementation. If we were considered an operator of "critical information infrastructure" in the future, this could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

If we are required to pay U.S. taxes, the value of your investment in our company could be substantially reduced.

If, pursuant to a plan or a series of related transactions, a non-United States corporation, such as our company, acquires substantially all of the assets of a United States corporation, and after the acquisition 80% or more of the stock, by vote or value, of the non-United States corporation, excluding stock issued in a public offering related to the acquisition, is owned by former shareholders of the United States corporation by reason of their ownership of the United States corporation, the non-United States corporation will be considered a United States corporation for United States federal income tax purposes. Based on our analysis of the facts related to our corporate restructuring in 2005 and 2006, we do not believe that we should be treated as a United States corporation for United States federal income tax purposes. However, as there is no direct authority on how the relevant rules of the Internal Revenue Code might apply to us, our company's conclusion is not free from doubt. Therefore, our conclusion may be challenged by the United States tax authorities and a finding that we owe additional United States taxes could substantially reduce the value of your investment in our company. You are urged to consult your tax advisor concerning the income tax consequences of purchasing, holding or disposing of ADSs or ordinary shares if we were to be treated as a United States domestic corporation for United States federal income tax purposes.

We rely on contractual obligations rather than government filings to ensure our continued title to vehicles managed under our vehicle leasing program.

Our loans to used automobile dealerships are structured on a sale-and-leaseback basis, whereby the entity lessor sells us the vehicle before leasing it back from us. However, upon completing the purchase of the subject vehicle, we do not formally transfer the registration of the vehicle into our name. We also do not file mortgage registrations relating to the lease of the vehicle. Instead, our contract with the lessor obligates them not to take any action that could undermine our title to the vehicle. In addition, we retain in our control all documents relating to the vehicle and title, and provide markings for the vehicle identifying it as owned by us. However, these steps would not prevent a good-faith third-party buyer from taking legal title to the vehicle if the lessor attempted to sell the vehicle without our knowledge. In such event, we would face costs attempting to recover from the lessor our losses from the unauthorized sale of the vehicle, and we could be unsuccessful in recovering any such costs.

#### 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 Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s 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 PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. 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, and the rate of growth has been slowing. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past few years, the PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results. For example, in the event of unanticipated adverse changes in the economy, the credit quality of the customer of our financing business may materially decrease, and our results of operations could be materially adversely affected.

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

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

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. For example, China enacted an Anti-Monopoly Law in 2008. Because the Anti-Monopoly Law and related regulations have been in effect for only a few years, there have been very few court rulings or judicial or administrative interpretations on certain key concepts used in the law. As a result,

there is uncertainty how the enforcement and interpretation of the new Anti-Monopoly Law may affect our business and 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, which may have a 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. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

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

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

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



There are uncertainties relating to the regulation of the internet industry in China, including evolving licensing practices. This means that permits, licenses or operations at some of our companies may be subject to challenge, or we have failed to obtain permits or licenses that applicable regulators may deem necessary for our operations or we may not be able to obtain or renew certain permits or licenses to maintain their validity. The major permits and licenses that could be involved include the ICP license, the online culture operating permit, the value-added telecommunication services operation permit and the internet publishing license.

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

In 2006, the MIIT, the predecessor of which is the Ministry of Information Industry, issued the Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a value-added telecommunication services operation permit or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The notice 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. Currently, our PRC consolidated affiliated entities own the related domain names and trademarks and hold the ICP licenses necessary to conduct our operations for websites in China.

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 any new licenses if required by any new laws or regulations. There are also risks that we may be found to violate the existing or future laws and regulations given the uncertainty and complexity of China's regulation of the internet industry.

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

Substantially all of our revenues and costs are denominated in RMB. The value of the RMB 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. In July 2005, the PRC government changed its decades-old policy of pegging

the value of the RMB to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB 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 the RMB and the U.S. dollar in the future. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the RMB 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 the RMB and the U.S. dollar in the future.

Significant revaluation of the RMB may have a material and adverse effect on your investment. To the extent that we need to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

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

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

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. 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 by complying with certain procedural requirements. Therefore, Qianxiang Shiji is able to pay dividends in foreign currencies to us without prior approval from SAFE. However, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access 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 regulations in the PRC may make it more difficult for us to pursue growth through acquisitions.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective in 2006 and was amended in 2009, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. The M&A Rule established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. These rules require, among other things, that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor will take 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 are triggered. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business is not in an industry related to national security. However, we cannot assure you that the Ministry of Culture or other government agencies will not publish interpretations contrary to our understanding or broaden the scope of such security review in the future.

We may grow our business in part by directly acquiring complementary businesses in China. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to the establishment of offshore holding companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

SAFE has promulgated several regulations, including the Notice on Relevant Issues Concerning Foreign Exchange Control of Domestic Residents' Overseas Investment and Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or SAFE Circular 37, issued in 2014, which replaced the former Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (generally known as SAFE Circular 75) promulgated by SAFE in October 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, which is referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC residents, share transfer or exchange, merger, division or other material events. In the event that a PRC resident holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Mr. Joseph Chen, our founder, chairman and chief executive officer, is not a PRC citizen, but resides in China and has established and maintains a major shareholding in our company. Based on our oral inquiry with the relevant local branch of SAFE, neither the requirements for registration under SAFE Circular 75 nor the requirements for registration under SAFE Circular 37 are applicable to Mr. Chen.

Mr. James Jian Liu, our executive director and chief operating officer, and a few other senior management personnel of our company, all of whom are PRC residents, became shareholders of our company as a result of the exercise of employee share options. Based on our inquiry with the relevant local branch of SAFE, any application to such local SAFE branch with respect to the registration of Mr. Liu and the other PRC resident shareholders' holdings of shares in our offshore holding company under SAFE Circular 75 or SAFE Circular 37 and related rules will not be officially accepted or examined because they became shareholders of our offshore holding company as a result of their exercise of employee share options.

However, we cannot conclude that SAFE or its local branch responsible for our PRC subsidiary's foreign exchange registrations will not later alter their position on and interpretation of the applicability of these foreign exchange regulations to Mr. Chen, Mr. Liu or the other PRC resident shareholders of our company. In the event that the

registration procedures set forth in these foreign exchange regulations becomes applicable to Mr. Chen, Mr. Liu or any of the PRC resident shareholders of our company, we will urge these individuals to file necessary registrations and amendments as required under SAFE Circular 37 and related rules. However, we cannot assure you that all of these individuals can successfully file or update any applicable registration or obtain the necessary approval required by these foreign exchange regulations. We can provide no assurance that we will in the future continue to be informed of the identities of all PRC residents holding direct or indirect interests in our company. The failure or inability of such individuals to comply with the registration procedures set forth in these regulations may subject us to fines or legal sanctions, restrictions on our cross-border investment activities or our PRC subsidiary's ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

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

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

In 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee share ownership plans or share option plans of an overseas publicly listed company. In 2007, also SAFE promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rules.

In February 2012, SAFE promulgated the Notice on the Administration of Foreign Exchange Matters for Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies, or the Stock Option Notice. This Stock Option Notice replaced the previous Stock Option Rules. The Stock Option Notice simplifies the requirements and procedures for the registration of stock incentive plan participants, especially in respect of the required application documents and the absence of strict requirements on offshore and onshore custodian banks, as were stipulated in the earlier Stock Option Rules. Under these rules, for PRC resident individuals who participate in stock incentive plans of overseas publicly listed companies, which includes employee stock ownership plans, stock option plans and other incentive plans permitted by relevant laws and regulations, a PRC domestic qualified agent or the PRC subsidiary of such overseas listed company must, among other things, file, on behalf of such resident, an application with SAFE or its local counterpart to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock holding or share option exercises as PRC residents may not directly use overseas funds to purchase shares or exercise share options. In addition, within three months after any substantial changes to any such stock incentive plan, including for example any changes due to merger or acquisition or changes to the domestic or overseas custodian agent, the domestic agent must update the registration with SAFE.

As our company became listed on the New York Stock Exchange, or the NYSE, in May 2011, we and our PRC citizen employees who participate in an employee share ownership plan or a share option plan are subject to these regulations. If we or our PRC optionholders fail to comply with these regulations, we or our PRC optionholders may be subject to fines and other legal or administrative sanctions. See “Item 4.B—Business Overview—Regulation—Regulations on Employee Stock Options Plans.”

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

The State Administration of Taxation has issued several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Notice on Certain Corporate Income Tax Matters Related to Indirect Transfer of Properties by Non-PRC Resident Enterprises issued in February 2015 and amended in 2017, or SAT Circular 7. Pursuant to these rules and notices, except for a few circumstances falling into the scope of the safe harbor provided by SAT Circular 7, such as open market trading of stocks in public companies listed overseas, if a non-PRC resident enterprise indirectly transfers PRC taxable properties (i.e. properties of an establishment or a place in the PRC, real estate properties in the PRC or equity investments in a PRC tax resident enterprise) by disposing of equity interest or other similar rights in an overseas holding company, without a reasonable commercial purpose and resulting in the avoidance of PRC enterprise income tax, such indirect transfer should be deemed as a direct transfer of PRC taxable properties and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%. SAT Circular 7 sets out several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose, such as whether the main value of equity interest in an overseas holding company is derived directly or indirectly from PRC taxable properties. An indirect transfer satisfying all the following criteria will be deemed to lack reasonable commercial purpose and be taxable under PRC law without considering other factors set out by SAT Circular 7: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the

intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC income tax on the direct transfer of such assets. SAT Circular 7 also introduces an interest regime by providing that where a transferor fails to file and pay tax on time, and where a withholding agent fails to withhold the tax, interest will be charged on a daily basis. If the transferor has provided the required documents and information or has filed and paid the tax within 30 days from the date that the share transfer contract or agreement is signed, then interest shall be calculated based on the benchmark interest rate; otherwise, the benchmark interest rate plus 5% will apply. Both the foreign transferor and the transferee, and the PRC tax resident enterprise whose equity interests are being transferred may voluntarily report the transfer by submitting the documents required in SAT Circular 7.

Although SAT Circular 7 provides clarity in many important areas, such as reasonable commercial purpose, there are still uncertainties on the tax reporting and payment obligations with respect to future private equity financing transactions, share exchange or other transactions involving the transfer of shares in non-PRC resident companies. The PRC tax authorities have discretions under SAT Circular 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investments. We may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a nonresident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of these transactions under SAT Circular 7, our income tax expenses associated with such potential acquisitions will increase, which may adversely affect our financial condition and results of operations.



Imposition of any additional taxes could adversely affect our financial condition and results of operations.

Under the Enterprise Income Tax Law and its implementation rules, both of which became effective on January 1, 2008, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, in 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. See “Item 5—Operating and Financial Review and Prospects—Taxation—PRC.” Although SAT Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, the determining criteria set forth in Circular 82 may reflect the 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 offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. Although we do not believe that our legal entities organized outside of the PRC constitute PRC resident enterprises, it is possible that the PRC tax authorities could reach a different conclusion. In such case, we may be considered a resident enterprise and may therefore be subject to enterprise income tax at a rate of 25% on our global income. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Pursuant to the Enterprise Income Tax Law and its implementation rules, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors, which are non-PRC tax resident enterprises without an establishment in China, or whose income has no connection with their institutions and establishments inside China, are subject to withholding tax at a rate of 10%, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. We are a Cayman Islands holding company and we conduct substantially all of our operations in China through contractual arrangements between our wholly owned PRC subsidiaries and our consolidated affiliated entities. As long as our offshore holding companies are considered non-PRC resident enterprises, dividends that they respectively receive from our PRC subsidiaries may be subject to withholding tax at a rate of 10%. See “Item 5—Operating and Financial Review and Prospects—Taxation—PRC.”

As uncertainties remain regarding the interpretation and implementation of the Enterprise Income Tax Law and its implementation rules, we cannot assure you that if we are regarded as a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders and ADS holders would not be subject to any PRC withholding tax at a rate of up to 10%. Similarly, any gain recognized by such non-PRC shareholders or ADS holders on the sale of shares or ADSs, as applicable, may also be subject to PRC withholding tax. If we are required under the Enterprise Income Tax Law to withhold PRC income tax on our dividends payable to our non-PRC enterprise shareholders and ADS holders, or on gain recognized by such non-PRC shareholders or ADS holders, such investors’ investment in our ordinary shares or ADSs may be materially and adversely affected.

The leasehold interests of some of our consolidated affiliated entities might not be fully protected by the terms of the lease agreements due to defects in the title documents or the landlord's failure to provide title documents.

We lease offices from third parties for our operations in China. Any defects in lessors' title to the leased properties may disrupt our use of our offices, showrooms or warehouse, which may in turn adversely affect our business operations. For example, certain buildings and the underlying land are not allowed to be used for industrial or commercial purposes without the authorities' approval, and the lease of such buildings to companies like us may subject the lessor to pay premium fees to the PRC government. We cannot assure you that the lessor has obtained all or any of approvals from the relevant governmental authorities. In addition, some of our lessors have not provided us with documentation evidencing their title to the relevant leased properties. We cannot assure you that title to these properties we currently lease will not be challenged. In addition, we have not registered any of our lease agreements with the PRC governmental authorities as required by PRC law, and although failure to do so does not in itself invalidate the leases, we may not be able to defend these leases against bona fide third parties. If third parties who purport to be property owners or beneficiaries of the mortgaged properties challenge our right to use the leased properties, we may not be able to protect our leasehold interest and may be ordered to vacate the affected premises, which could in turn materially and adversely affect our business and operating results.

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

Our independent registered public accounting firm that issues the audit reports included in this annual report filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the United States Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Starting in 2011 the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China 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 China Securities Regulatory Commission, or 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 Chinese 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 Commissioners had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will 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 fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

In the event that the SEC restarts the administrative proceedings, 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 the PRC, 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 ADSs may be adversely affected.

If our independent registered public accounting firm were 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 NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

## Risks Related to Our ADSs

If the market price for our ADSs falls below US\$1.00 for an extended period of time, or to US\$0.16 at any time, our ADSs may be delisted from the NYSE.

As we announced on April 30, 2018, we will pay a cash dividend in an amount in the aggregate from US\$nil up to approximately US\$131 million in connection with the Transaction. In addition, we will dispose of a wholly-owned subsidiary, OPI, which holds our advertising agency business as well as the great majority of our long-term investments in terms of both book value and fair market value. Once the Transaction has closed, we no longer own OPI and we have paid the cash dividend to our shareholders, we will have less cash on hand and few assets aside from our those assets that we are using in our used automobile sales, financing and SaaS businesses. We expect the market price of our ADSs to fall significantly on the ex-dividend date to reflect the value that will have been removed from our company and transferred to our shareholders. See “Item 4. Information on the Company—A. History and Development of the Company—The Transaction” for a description of the proposed transactions. Pursuant NYSE Rule 802.01C, a company will be considered to be below compliance standards if the average closing price of a security as reported on the consolidated tape is less than US\$1.00 over a consecutive 30 trading-day period. Once notified, the company must bring its share price and average share price back above US\$1.00 by six months following receipt of the notification. The company can regain compliance at any time during the six-month cure period if on the last trading day of any calendar month during the cure period the company has a closing share price of at least US\$1.00 and an average closing share price of at least US\$1.00 over the 30 trading-day period ending on the last trading day of that month. In the event that at the expiration of the six-month cure period, both a US\$1.00 closing share price on the last trading day of the cure period and a US\$1.00 average closing share price over the 30 trading-day period ending on the last trading day of the cure period are not attained, the NYSE will commence suspension and delisting procedures. In addition, we understand that the NYSE has a policy to suspend trading immediately and commence delisting procedures if the market price of securities falls to US\$0.16 or less. While we believe that the value of our SNS business and our used automobile business together with the \$90 million debt that OPI will owe us and the value of the cash that we will have on hand after the payment of any special dividend will exceed US\$1.00 per ADS, we cannot assure you that our ADSs will remain in compliance with the NYSE listing rules. If our ADSs are delisted from the NYSE, the liquidity and value of an investment in our ADSs will be materially and adversely affected.

The market price for our ADSs has fluctuated and may continue to be volatile.

The market price for our ADSs has fluctuated significantly since we first listed our ADSs. Since our ADSs became listed on the NYSE on May 4, 2011, the closing prices of our ADSs have ranged from US\$6.15 to US\$90.05 per ADS, including retrospective adjustments for the change in the number of ordinary shares represented by each ADS that occurred on February 6, 2017. The last reported trading price on May 11, 2018 was US\$8.78 per ADS.

The market price for our ADSs may be highly volatile and subject to wide fluctuations in response to factors including the following:

- regulatory developments in our industry affecting us or our competitors;
- announcements of studies and reports relating to the quality of our services or those of our competitors;
- changes in the economic performance or market valuations of other companies that provide SNS or used automobile services, or other internet companies;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the SNS industry or the internet industry in general;
- changes in the internet finance industry or in the used automobile industry;

announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital commitments;

additions to or departures of our senior management;

fluctuations of exchange rates between the RMB and the U.S. dollar;

sales or perceived potential sales of additional ordinary shares or ADSs;

the payment of a special dividend.

In addition, the stock market in general, and the market prices for internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States 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 these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Broad market and industry fluctuations may adversely affect our operating performance. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

Our dual-class voting structure allows our two largest shareholders to significantly influence our actions over important corporate matters, will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

We have a dual-class voting structure which consists of Class A ordinary shares and Class B ordinary shares. Subject to certain exceptions, in respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to 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 which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares.

We issued Class A ordinary shares represented by our ADSs in our initial public offering in May 2011. Mr. Joseph Chen, who is our founder, chairman and chief executive officer, and SB Pan Pacific Corporation are our only shareholders who hold Class B ordinary shares. As of February 28, 2018, Mr. Joseph Chen, our founder, chairman and chief executive officer, beneficially owns approximately 22.8% of our outstanding Class A ordinary shares and approximately 55.8% of our outstanding Class B ordinary shares, representing in aggregate 48.9% of our total voting power, and SB Pan Pacific Corporation beneficially owns approximately 37.1% of our outstanding Class A ordinary shares and approximately 44.2% of our outstanding Class B ordinary shares, representing in aggregate 42.9% of our total voting power.

Due in large part to the disparate voting powers attached to the two classes of ordinary shares, Mr. Chen and SB Pan Pacific Corporation have controlling power over matters requiring shareholder approval, subject to certain exceptions. As between Mr. Chen and SB Pan Pacific Corporation, the approvals of SB Pan Pacific Corporation are required for certain important matters relating to our company. See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares—Voting Rights.” This concentration of ownership and voting power in the hands of Mr. Chen and SB Pan Pacific Corporation may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who purchase ADSs. In addition, these persons could divert business opportunities away from us to themselves or others.



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

Sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of February 28, 2018, not including options, we have 1,034,254,008 ordinary shares outstanding comprised of (i) 455,987,265 Class A ordinary shares represented by ADSs, which ADSs are freely transferable without restriction or additional registration under the Securities Act, (ii) 272,878,293 Class A ordinary shares not represented by ADSs, which are available for sale subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act, and (iii) 305,388,450 Class B ordinary shares which, following conversion to Class A ordinary shares by the holder of the Class B ordinary shares, are available for sale subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act.

Certain holders of our ordinary shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of our ADSs to decline.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in this annual report and in the deposit agreement, dated as of May 4, 2011, and amendment No. 1 to the deposit agreement, dated as of February 6, 2017, by and among our company, Citibank, N.A., as depositary, and the holders and beneficial owners of American depositary shares, holders of our ADSs will not be able to exercise voting rights attaching to the Class A ordinary shares represented by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the Class A ordinary shares represented by the ADSs. Upon receipt of your voting instructions, the depositary will vote the underlying Class A ordinary shares in accordance with these instructions.

Pursuant to our amended and restated memorandum and articles of association, we may convene a shareholders' meeting upon seven calendar days' notice. If we give timely notice to the depositary under the terms of the deposit agreement, which is 30 days' notice, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to instruct the depositary to vote the Class A ordinary shares underlying your ADSs, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the Class A ordinary shares underlying your ADSs are not voted as you requested. In

addition, although you may directly exercise your right to vote by withdrawing the Class A ordinary shares underlying your ADSs, you may not receive sufficient advance notice of an upcoming shareholders' meeting to withdraw the Class A ordinary shares underlying your ADSs to allow you to vote with respect to any specific matter.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings, and you may not receive cash dividends if it is impractical to make them available to you.***

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.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of 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. For example, the depository is expected to close its transfer books temporarily in connection with the cash dividend that we announced on April 30, 2018. 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 in accordance with the terms of the deposit agreement.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and substantially all of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and consolidated affiliated entities. Most of our directors and officers reside outside the United States and a substantial portion of the assets of such directors and officers are located outside of the United States. As a result, it may be difficult or impossible for you to effect service of process within the United States upon us or these persons, or to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine or a penalty, and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2018 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the

fiduciary responsibilities of our directors 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 English common law, which provides persuasive, but not binding, authority. 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 precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our amended and restated memorandum and articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

Our amended and restated memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. The provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

We may be a passive foreign investment company for United States federal income tax purposes, which could subject United States investors in the ADSs or ordinary shares to significant adverse United States income tax consequences.

Depending upon the value of our ordinary shares and ADSs and the nature of our assets and income over time, we could be a PFIC for United States federal income tax purposes. A non-United States corporation will be treated as a PFIC 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 passive income or are held for the production of passive income. Passive income is any income that would be foreign personal holding company income under the Internal Revenue Code of 1986, as amended, including, without limitation, dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of property producing such income, net gains from commodity transactions, net foreign currency gains and income from notional principal contracts.

We believe we were classified as a PFIC for each of the past seven taxable years ending on December 31. Although our PFIC status for the current taxable year will not be determinable until after the close of the year, we expect, but cannot guarantee, that we will be treated as a PFIC for the current taxable year due to our ownership of and income from significant assets treated as passive under the PFIC rules. Our PFIC classification for any particular year will depend on the value of our ordinary shares and ADSs, the nature of our assets and income over time, and the nature of our business. There can be no assurance that we will not be a PFIC for any future taxable year, even if we hold fewer passive investment assets as a result of planned disposition of assets.

If we are a PFIC for any taxable year in which you hold our ADSs or ordinary shares and you are a U.S. Holder (as defined in “Item 10.E—Additional Information—Taxation—United States Federal Income Tax Considerations—General”), you generally will become subject to increased U.S. federal income tax liabilities and special U.S. federal income tax reporting requirements, unless you make a timely “mark-to-market” or, potentially, a “Qualified Electing Fund” election to mitigate some of the applicable consequences. For more information on the U.S. federal income tax consequences to you that would result from our classification as a PFIC, see “Item 10.E Additional Information—Taxation—United States

Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

Item 4. Information on the Company

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

We began our operations in China in 2002 through Beijing Qianxiang Tiancheng Technology Development Co., Ltd., or Qianxiang Tiancheng, which has subsequently become one of our consolidated affiliated entities through the contractual arrangements described below. CIAC/ChinaInterActiveCorp, or CIAC, was incorporated in August 2005 in the Cayman Islands. CIAC wholly owns Qianxiang Shiji Technology Development (Beijing) Co., Ltd., or Qianxiang Shiji, a company established in Beijing and one of the subsidiaries through which we operate our business in China in reliance on a series of contractual arrangements.

Our current holding company, Renren Inc., was incorporated in February 2006 in the Cayman Islands under our prior name, Oak Pacific Interactive. Through a corporate restructuring in March 2006, CIAC’s shareholders exchanged all of their outstanding ordinary and preferred shares of CIAC for ordinary and preferred shares of Oak Pacific Interactive on a pro rata basis. As a result, Oak Pacific Interactive acquired all of the equity interests in CIAC and CIAC became a wholly owned subsidiary of Oak Pacific Interactive. In December 2010, we changed our corporate name from Oak Pacific Interactive to Renren Inc.

On March 25, 2011, we implemented a ten-for-one share split. Except as otherwise indicated, all information in this annual report concerning share and per share data gives retroactive effect to the ten-for-one share split.

In May 2011, we completed our initial public offering, wherein we issued and sold 50,863,711 ADSs, and certain selling shareholders sold 10,201,289 ADSs, at an initial offering price of US\$14.00 per ADS (without giving retroactive effect to the change in the number of ordinary shares represented by each ADS from three to fifteen that became effective on February 6, 2017). On May 4, 2011, our ADSs began trading on the NYSE under the symbol “RENN.” In addition, concurrently with our initial public offering, we sold an aggregate of 23,571,426 Class A ordinary shares to certain unrelated third-party investors in a private placement, at a price of US\$4.67 per Class A ordinary share.

In October 2011, we completed the acquisition of 100% of the equity interest in Wole Inc., a Cayman Islands limited liability company. Wole Inc. operated *56.com*, a leading user generated content online video sharing website in China, through a set of contractual arrangements between Wole Inc.’s PRC subsidiary, Beijing Woxiu Information Technology Development Co., Ltd., and Guangzhou Qianjun Internet Technology Co., Ltd., or Qianjun Technology.

In March 2013, we completed a corporate restructuring wherein we moved our online games business to Shanghai Renren Games Technology Development Co., Ltd., or Renren Games, a PRC company incorporated in November 2012.

In October 2013, Baidu Holdings Limited, a subsidiary of Baidu, Inc., acquired approximately 59% of the equity interest of Nuomi Holdings Inc., or Nuomi, a wholly owned subsidiary of ours and a leading provider of group-buying services in China. In January 2014, Baidu Holdings Limited entered into a share purchase agreement with us and Nuomi to acquire all of our remaining equity interest in Nuomi. This transaction was completed on February 28, 2014.

In October 2014, Tianjin Jinhua Culture Development Co., Ltd, a subsidiary of Sohu.com Inc., acquired 100% of the equity interest of Qianjun Technology, a wholly owned subsidiary of ours and operator of the *56.com* website. This transaction was completed on December 1, 2014.

In November 2015, our board of directors approved the disposition of our online game business. The disposition was subsequently completed in March 2016.

On February 6, 2017, we changed the number of ordinary shares represented by each ADS from three to fifteen. Except as otherwise indicated, all ADS and per ADS data in this annual report give retroactive effect to this change.

In August 2017, we acquired 100% of Geographic Farming, LLC, a 360° real estate marketing and media service provider. Geographic Farming provides fully customizable lead capture landing pages that offer multiple home value estimates.

In December 2017, we acquired 100% of Trucker Path Inc., a transportation network company specializing in online and mobile services for the trucking industry in the United States. Trucker Path operates a large American online trucking community with over one million installs on its application on Google Play Store.

Our principal executive offices are located at 5/F, North Wing, 18 Jiuxianqiao Middle Road, Chaoyang District, Beijing, 100016, the People's Republic of China. Our telephone number at this address is +86 (10) 8448-1818. Our registered office in the Cayman Islands is located at PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands. Our telephone number at this address is +1 345-949-8066. We also have offices in 33 other cities in China, including Shanghai, Guangzhou and Wuhan, as well as 4 offices in the United States and 1 office in the Philippines.

#### The Transaction

On June 10, 2015, our board of directors received a non-binding proposal letter from Mr. Joseph Chen, the chairman of our board of directors and our chief executive officer, and Mr. James Jian Liu, a member of our board of directors and our chief operating officer, proposing a “going-private” transaction. We have taken no formal action with respect to this non-binding proposal.

On September 30, 2016, we announced that we intended to spin off a newly formed subsidiary that would hold our Woxiu business and most of our investments in minority stakes in our investee companies. Our plan was to distribute rights to our shareholders on a pro rata basis that would be exercisable for shares in the entity that would hold these assets, and to distribute cash in lieu of fractional rights and cash to holders of rights who could not exercise or who chose not to exercise their rights.



On December 22, 2016, we announced that our board of directors had formed a special committee to review the terms of the proposed spin-off and that Mr. Tianruo Pu, Mr. Stephen Tappin and Ms. Hui Huang had been appointed by the board of directors to be the members of the special committee. We further announced that our board of directors had received a preliminary non-binding proposal from Mr. Chen, Mr. Liu and SoftBank Group Capital Limited to purchase shares of the entity that would hold the assets in the proposed spin-off.

These earlier proposals have all been superseded and are no longer currently under consideration.

On April 30, 2018, we announced a cash dividend payable to all holders of ordinary shares (including ordinary shares represented by ADSs). At the same time, we also announced that Oak Pacific Investment, or OPI, a wholly-owned subsidiary of Renren Inc., would be conducting a private placement in which it would offer its ordinary shares solely to shareholders of Renren, for which the waiver of the cash dividend would be the sole form of payment that would be accepted. We refer to the cash dividend, the private placement, and the ancillary agreements and actions as the Transaction.

As of December 31, 2017, our balance sheet included US\$565.4 million in long-term investments in some 57 unconsolidated subsidiaries and investment funds. The Transaction is being undertaken to reduce the number and aggregate size of these investments in order to mitigate the risk of being deemed to be an investment company within the meaning of the Investment Company Act. As of the date of this annual report, OPI holds one active business, which is our ZenZone advertising agency business. OPI also holds shares in 44 portfolio companies and interests in 6 investment funds. These portfolio companies and investment funds have an aggregate book value of US\$530.6 million as of December 31, 2017, and represent the overwhelming majority of our long-term investments in terms of both book value and fair market value.

The private placement is scheduled to close on June 21, 2018. The one share in OPI currently held by Renren Inc. will be redeemed for no value as part of the Transaction, and OPI will be entirely owned by the purchasers in the private placement. Renren will cease to have any ownership interest in OPI and OPI will cease to be consolidated in our financial statements. Immediately prior to the closing of the private placement, OPI will issue a note to Renren as part of the Transaction. The principal amount of the note will be US\$90,000,000, the interest rate will be 8% per year, and the term will be the earlier of five years and the date upon which OPI and its subsidiaries no longer hold any shares of SoFi.

We have furnished an amended and restated offering circular for the private placement to the SEC on Form 6-K on May 14, 2018, together with unaudited pro forma condensed consolidated financial statements of Renren. The unaudited pro forma condensed consolidated balance sheet has been prepared as though the Transaction occurred on December 31, 2017, and the unaudited pro forma condensed consolidated income statements have been prepared as though the Transaction occurred on January 1, 2015.

The special committee may amend or modify the Transaction for any reason at any time prior to the closing, including by extending the deadline for the acceptance of the offer in the private placement or by postponing the closing, and the Transaction may be cancelled for any reason at any time prior to the closing of the private placement. If the private placement is cancelled, the cash dividend will also be cancelled.

We are not disposing of our SNS or used automobile businesses, and we plan to remain listed on the NYSE after the completion of the proposed transactions. We believe that the value of our SNS and used automobile businesses, together with the value of the note to be issued by OPI and other assets that will remain in our company after the proposed transactions, will be more than sufficient to meet the continued listing requirements of the NYSE. However, if the market price of our ADSs falls further than we expect after we have paid one or more special cash dividends, it is possible that we may be unable to maintain our listing. See “Item 3.D—Key Information—Risk Factors—Risks Related to Our Business and Industry—If the market price for our ADSs falls below US\$1.00 for an extended period of time, or to US\$0.16 at any time, our ADSs may be delisted from the NYSE.”

## **B. Business Overview**

### Overview

Renren operates a social networking service (SNS) business, a used automobile business and a SaaS business.

Our Renren SNS revenues today consist primarily of internet value-added services, or IVAS, relating to virtual items and VIP memberships in connection with live streaming services. Woxiu, which means “a show of your own” in Chinese, is a PC-based social video platform for users to stream their performances live to viewers. We launched Renren mobile live streaming in the second quarter of 2016 to serve as the mobile counterpart to Woxiu.

Our used automobile business provides car purchasers in China with access to a wide selection of used vehicles across our network, with a focus on premium brands such as Audi, BMW, Mercedes-Benz, Land Rover and Porsche. In addition, we arrange financing options for customers through Ping An Bank and other financial services partners. We also offer value-added services including warranties, insurance and after-sale products and services. Our after-sale products and services include registration, detailing, maintenance and accessories. Our used automotive sales are growing rapidly. After launching this business in the middle of 2017, we sold about 2,200 vehicles in the second half of 2017, and used automotive sales accounted for the majority of our revenues in 2017.

As of March 31, 2018, we had 14 dealerships across China. For the most part these are located in provincial capitals or comparable cities, where we believe the mix of cost structure, consumer demand and opportunity for growth is most favorable. We provide capital, a unified brand, technology system and operational coordination. Under this model, all of the cash flow, financial and accounting recordkeeping across our dealerships is centralized. In addition marketing and promotional activities are also centralized, although certain aspects may be executed at the dealership level. Due to restrictions on foreign ownership of certain industries in China, our variable interest entity Shanghai Jieying Automobile Sales Co., Ltd., or Shanghai Jieying, is the contracting party under these arrangements.

Our SaaS business began with our launch of Chime in August 2016 and it was further expanded by our acquisition of Geographic Farming, LLC, in August 2017. Chime is an all-in-one real estate solution provider and Geographic Farming is a 360° real estate marketing and media service provider. Unlike our other businesses, our SaaS business is currently focused on the U.S. market rather than the China market.

As our business model was transitioning from our roots in social networking, we made a series of long-term investments in privately held companies that we believed would offer us synergies or access to resources and know-how. The majority of these investments by value was concentrated in the fields of internet finance, social finance, and real estate investment and management, and the number and aggregate size of these investments was significant. As of December 31, 2017, we had US\$565.4 million of long-term investments, including US\$318.8 million in equity method investments, US\$144.8 million in cost method investments, and US\$101.8 million in available-for-sale investments. However, due to the risk of being deemed to be an investment company, we launched a transaction on April 30, 2018, to dispose of most of these investments together with our ZenZone advertising agency business. See “Item 4. Information on the Company—A. History and Development of the Company—The Transaction.”

Our total net revenues have been increasing over the last three years while our losses from continuing operations have been decreasing. Our total net revenues increased from US\$41.1 million in 2015 to US\$63.4 million in 2016 and US\$202.1 million in 2017. We had losses from continuing operations of US\$223.2 million in 2015, US\$194.1 million in 2016 and US\$110.5 million in 2017.

#### Our Renren SNS

Renren, our main social networking website plus mobile service, was historically the foundation of our service offerings. *Renren.com* and Renren Mobile App enable users to communicate and stay connected with their friends, classmates, family members and co-workers. We began at university campuses, and we believe our users include a significant portion of current college students and recent college graduates in China. Our social networking community has diversified over the years to include white-collar professionals, university-bound high school students and other demographics. Since December 2013, partly due to increased competition for the white collar demographic and their migration to social messaging services, we have begun refocusing on the younger demographic such as university students. With 88% of our traffic now coming from our mobile services, we have transformed from a PC-based social networking company to a mobile-oriented social networking services provider.

As of December 31, 2015, 2016 and 2017, the cumulative total of our activated users was approximately 228 million, 240 million and 257 million, respectively. However, our monthly unique log-in users decreased from approximately 41 million in December 2015 to approximately 35 million in December 2016 and then further to approximately 32 million in December 2017. Furthermore, the average amount of time that unique log-in users spent on our platform decreased from approximately 1.8 hours in 2015 to approximately 1.4 hours in 2016 before increasing to approximately 1.6 hours in 2017. The decrease in users' average time spent on our platform is primarily due to intense competition in the mobile internet environment, where there are numerous mobile applications dedicated to meet the specific needs of different users that have affected their stickiness to our platform.

Our SNS platform is accessible from internet-enabled devices, including mobile devices and personal computers, so that users can access our platform anytime from anywhere they are connected to the internet. We offer versions of our sites and client applications that have been optimized for a range of mobile device operating systems, including for iOS, Android and Windows. The mobile percentage of our monthly total user time spent on *renren.com* was 68.6%, 92.6% and 87.5% in December 2015, December 2016 and December 2017, respectively.

By providing content and applications that are attractive to Chinese internet users, we seek to strengthen our user base and increase user engagement and retention. With mobile devices having become the preferred method for Chinese internet users to access social networking services and other internet services, we have focused our research and development resources on mobile services and applications. Since 2015, we have continued to improve our Renren Mobile App's communication features. We opened our social graph from a friend-based network to a follow-based social network. In addition, multi-likes and mobile live streaming have been added to the app and are rapidly becoming popular features. The new features are compatible with our app strategy shift to an "online celebrity" type of format.

Historically, one of the primary approaches for us to monetize our user base was through online advertising services. We still offer a broad range of advertising formats and solutions, such as social ads, display ads, top promoted news feeds, sponsored online events, campaigns and virtual items on both web and mobile platforms of *renren.com*. However, online advertising generated an insignificant amount of revenue in 2017, and we have no expectation that it will constitute a significant part of our business for the foreseeable future. Furthermore, we are disposing of our ZenZone advertising agency business as part of the transaction that we announced on April 30, 2018. See "—A. History and Development of the Company—The Transaction."

Currently, we monetize our user base primarily through virtual items and VIP memberships. The majority of our revenue from virtual items is related to our live streaming services. Woxiu, which means "a show of your own" in Chinese, is a PC-based social video platform for users to stream their performances live to viewers. We launched Renren mobile live streaming in the second quarter of 2016 to serve as the mobile counterpart to Woxiu. With our social networking features, users can chat with the performer and other audience members and purchase virtual items from us such as flowers, jewelry or sports cars to show their support and appreciation for the performers. The performers receive a portion of the purchase price for the virtual items that are gifted to them. Virtual items, such as cartoon images, flashes, birthday cards and gift cards containing our virtual currency, may also be sent by users to friends. Some virtual items are free and others need to be purchased. VIP memberships provide our SNS users with additional features and benefits such as larger size limits on photo albums and email inboxes.

Our Used Automotive Sales

We provide car purchasers in China with access to a wide selection of used vehicles across our network, with a focus on premium brands such as Audi, BMW, Mercedes-Benz, Land Rover and Porsche. We also sell some new cars. We display vehicles at our in-store showrooms as well as on our Kaixin Auto app and through other online vertical channels such as Autohome and 58.com. Most sales occur in-store given the importance of the showroom experience in the premium segment. To provide transparency to our customers, we provide extensive external and interior photographs of each vehicle on our online inventory. We typically offer favorable trade-in terms in connection with our sales. Our customer support specialists are available to answer customer questions that arise throughout the process.

In addition, we arrange financing options for customers through Ping An Bank and other financial services partners. Customers can easily select among various financing options in a convenient sales process. We do not take balance sheet risk in connection with these consumer financing activities. There is typically a period of time between the financing approval and the disbursement of funds, and to address this, we usually provide financing to our dealerships to allow them to complete sales and allow customers to begin to enjoy their purchased vehicles. This interim period is normally between 5 and 25 days depending on the specific financial institutional partner which will lend the funds. We also offer value-added services including warranties, insurance and after-sale products and services. Our after-sale products and services include registration, detailing, maintenance and accessories.

Our used automotive sales are growing rapidly. After launching this business in the middle of 2017, we sold about 2,200 vehicles in the second half of 2017.

All of the cash flow, financial and accounting recordkeeping across our dealerships is centralized. In addition marketing and promotional activities are also centralized, although certain aspects may be executed at the dealership level. We also support dealers with our dealer SaaS platform, powered by big data, provides market insights and dealer management functionality and assists them in making operational and inventory management decisions. It also empowers their sales via data mining and analysis of existing customer data bases and online lead generation.

Our business is driven by data and technology at all stages of the process, from inventory purchasing, reconditioning, photography and annotation through online merchandising, sales, financing, logistics, and delivery. Through our mobile application and web app, we allow consumers to browse vehicle inventory, arrange visits to our showrooms and understand the car buying process. Users are also able to pay deposits online once an automobile is selected. Users who desire to sell their cars to us are able to input information to receive an estimate for the sale of their car. Our dealer SaaS system is designed to cover every aspect of a car dealer's daily operations, including finance, inventory, sales, procurement, vehicle assessment, and value-added services to improve operating efficiency. It also provides market data insights to assist dealers in their inventory procurement and marketing. Our big data analytics system collects over 25 million data points daily, covering approximately 390 cities. After de-duplication, data normalization and anomaly removal, this yields approximately five million highly relevant data items related to used vehicles for further analysis.

We attract customers through a variety of channels, including referrals, walk-ins, especially for certain of our dealerships located in prime areas, and online performance-based advertising. We believe referrals are key to our customers as they will want to purchase used automobiles from a business they can trust. Each dealership has a team of customer support specialists who provide assistance to our customers located around China. Our specialists are available to assist customers with questions that arise throughout the car buying process. These specialists are available via online chat or telephone and help customers navigate the website, answer specific questions and assist in loan applications. We take a consultative approach with our customers, offering live support and acting as a trusted partner to guide them through each phase of the purchase lifecycle. We are committed to providing our customers with the highest quality transaction experience and believe our customer support specialists are a meaningful reason why customers prefer transacting with us. The effectiveness of our model is reflected in the high ratings we receive from our customers and strong customer referrals. We focus on developing our customer support specialists and providing them with the information and resources they need to offer exceptional customer service.

Our platform facilitates value-added services to car purchasers, which is currently comprised sales of third-party insurance policies and third-party warranties. Our scale and our ability to provide an effective channel for insurance brokers and companies to acquire customers have enabled us to negotiate more favorable standard terms for car purchasers. The products currently offered through our platform are accident insurance and warranties against future repairs. We earn service fees from insurance and warranty policy brokers for facilitating the sale of such insurance products.

We obtain our used vehicle inventory through the large and liquid national used-car market. The majority of our inventory is acquired directly from customers, vehicle finance and leasing companies, online sales platforms or individuals, including those who seek to trade in their vehicles in connection with a purchase. We use internally-developed algorithms to advise our dealerships which types of cars to bid on and how much to bid, identifying criteria such as make, model, price range, and likely locations of such cars. Our software sifts through over 25 million data points per day. Using this data, we can evaluate the tens of thousands of potential vehicle purchases we consider each day, giving us a distinct advantage over traditional in-person sourcing methods. We utilize a broad range of data sources, including proprietary internal data and a variety of external data sources to support our assessments.

Prior to acquiring a vehicle, we put it through a thorough inspection process covering all major systems, controls, features, brakes, tires and cosmetics. Based on our inspection, we determine the reconditioning necessary to bring the vehicle up to our internal quality standards. We do not offer vehicles for sale which are in poor condition or have a history of accidents, water or fire damage and extensive mileage or other unacceptable attributes. After acquiring a vehicle, we transport the vehicle to one of our reconditioning locations, at which point the vehicle is entered into our inventory management system. Each reconditioning location includes trained technicians, vehicle lifts, dent repair and paint capabilities, and receives on-site support from third party vendors with whom we have integrated systems to ensure ready access to parts and materials. Our centrally trained repair teams perform substantially all routine mechanical and minor body repairs in-house at our dealership locations.

As of March 31, 2018, we had 14 dealerships across China. For the most part these are located in provincial capitals or comparable cities, where we believe the mix of cost structure, consumer demand and opportunity for growth is most favorable. The 14 dealerships are located in Dalian, Chongqing, Nanjing, Jinan, Hangzhou, Shenyang, Zhengzhou, Hohhot, Yinchuan, Cangzhou, Changchun, Shanghai, Suzhou and Wuhan.



Due to restrictions on foreign ownership of certain industries in China, our variable interest entity Shanghai Jieying Automobile Sales Co., Ltd., or Shanghai Jieying, holds our interests in the dealerships. When we acquire a dealership, the original shareholder of the dealership agrees to set up a new special purpose holding vehicle to which it transfers the eligible assets, employees and business contracts owned and leased by the existing dealership. In turn, Shanghai Jieying agrees to subscribe for 70% of the equity in this new entity. The consideration for the 70% equity interest consists of cash injected into the acquired dealership as well as contingent consideration in the form of shares of Kaixin Auto Group, our subsidiary and the parent of Shanghai Jieying. The payment of the contingent consideration is contingent upon the successful listing of Kaixin Auto Group as well as the performance of the acquired dealership. In addition, if the dealership opens a new store or acquires other car dealerships, then we may negotiate an additional performance evaluation method for the new store or acquired business.

In expanding our network of dealerships, we carefully consider potential markets and conduct systematic evaluation of each potential new site, using a scoring system that we developed over the years. In our scoring system, we consider a number of factors, including:

- location, nature and quality of the area served;
- population density in the area served;
- age distribution and average disposable income of consumers in the area served;
- spending patterns, dining habits and frequency of consumers in area served;
- locations of other car dealerships within the area served;
- estimated customer traffic;
- structure of the dealership, including availability of showroom and parking space; and
- rental costs, lease economics and estimated return on investment.

In addition to our dealerships, starting from 2018, we also engage with other in-network dealers through our platform, collaborating with them primarily to meet our inventory needs and by providing them financing. We work with both large dealers, who may have a broader and diverse inventory collection and more need for our financing services, and small dealers, who may have better local knowledge or offer inventory on attractive terms. We also support dealers

with our dealer SaaS platform, which provides market insights and dealer management functionality.

We manage our relationships with dealers through a dedicated in-house team. Responsibilities of this team include sourcing, review and approval of dealer financing relationships, monitoring of vehicles sourced from dealers, and management of our dealer database. We monitor performance data on a real-time basis through our dealer SaaS system.

To ensure the quality of our dealer network as well as prevent potential fraud risk, we have implemented a rigorous procedure to screen dealers based on the dealer's licensing status, operation history, scale, location and various other factors.

### Our Financing Business

We launched our financing business through internet finance services in the fourth quarter of 2014 with Renren Fenqi, a financial service platform providing credit financing to college students in China for making purchases on e-commerce platforms on an installment payment basis. In the first quarter of 2015, we launched a used automobile financing service which provides credit financing to used automobile dealers in China. In the second quarter of 2015, we launched Renren Licai, a financing platform, as one source of funds for the credit financing that we extend in our internet finance business. In the second quarter of 2016, we stopped making loans through Renren Fenqi, and we are now only collecting the remaining installment payments as they come due. The last of these installment payments will be due in the second quarter of 2018. In the third quarter of 2017, we stopped issuing new financing products on our Renren Licai platform. At the moment, the principal element of our financing business is our used automobile financing service which is now part of our Auto Group segment.

As of December 31, 2017, we had extended credit in an aggregate of RMB9,957.5 million (US\$1,473.7 million) to a total of 879 used automobile dealers in 60 cities mainly concentrated in Shandong, Henan, Jiangsu, Zhejiang and Sichuan provinces. This financing makes it possible for used automobile dealers to acquire and maintain inventory for their businesses. According to the China Automobile Dealers Association, sales of used automobiles in China totaled approximately 12.4 million units in 2017, as compared with 10.4 million units in 2016 and 9.4 million units in 2015.

Our loans to used automobile dealerships are structured on a sale-and-leaseback basis, whereby the dealership sells us the vehicle before leasing it back from us. We do not formally transfer the registration of the vehicle into our name or file mortgage registrations relating to the lease of the vehicle, but our contract with the lessor obligates them not to take any action that could undermine our title to the vehicle, and we retain in our control all documents relating to the vehicle and title and provide markings for the vehicle identifying it as owned by us. Our employees inspect the cars that are sold and leased back under these arrangements and visit the borrowers periodically to ensure that cars recorded as still in inventory have not been sold and that cars that have been sold are replaced by new inventory that becomes part of the security for the loans.

Funds for our financing business are provided by our issuance of asset-backed securities collateralized by that credit financing and by peer-to-peer platforms. In January 2016, we originated China's first asset-backed security product collateralized by finance leasing of used automobiles with an issuance in the amount of RMB 299.8 million (US\$46.1 million) and a term of 12 months. This product trades on the Shanghai Stock Exchange. In September 2016, we originated a second, similar asset-backed security product, also collateralized by finance leasing of used automobiles and also listed on the Shanghai Stock Exchange, in the amount of RMB 510.6 million (US\$78.5 million) and a term of 21 months. These asset-backed securities are reflected as liabilities on our balance sheet and the corresponding collateral, which is constantly renewed over the life of the securities, as assets. The financing that is provided by peer-to-peer platforms is primarily short-term, with a term of one to three months.

#### Our SaaS Business

We are developing a lead generation and customer relationship management (CRM) solution for real estate professionals in the United States under the brand name Chime. Chime is a comprehensive SaaS platform being designed to offer CRM, IDX and team management solutions and help real estate professionals launch marketing campaigns, track leads' activities, build customer relationships, manage websites and seamlessly communicate with teams across multiple devices. Our Chime team works with top real estate professionals in the San Francisco Bay Area to resolve the issues these professionals encountered from the fragmented apps and multiple disconnected systems in their daily work. Through cooperation with these top real estate professionals, Chime consolidates digital tools used in the real estate industry into one mobile-based easy-to-use platform.

We launched Chime in August 2016. Our Chime team consists of 221 employees as of December 31, 2017, among which 169 employees are responsible for research and development, 23 employees are responsible for sales and 29 employees are responsible for operations and general administration. Our Chime research and development team is based in Beijing and Wuhan and our Chime sales and operation teams are based in Utah. This business is still in an early stage.

In August 2017, we acquired 100% of Geographic Farming, LLC, a 360° real estate marketing and media service provider. Geographic Farming provides fully customizable lead capture landing pages that offer multiple home value estimates. We have enhanced Geographic Farming with Chime's customer relation management solution.

### Strategic Investments

As our business model was transitioning, one of our principal business activities was evaluating and making a series of long-term investments in privately held companies that we believe offer us synergies or access to resources and know-how. The majority of these investments by value was concentrated in the fields of internet finance, social finance, and real estate investment and management, and the number and aggregate size of these investments was significant. As of December 31, 2017, we had US\$565.4 million of long-term investments, including US\$318.8 million in equity method investments, US\$144.8 million in cost method investments, and US\$101.8 million in available-for-sale investments. Our single largest long-term investment as of December 31, 2017 was a 14.97% interest in SoFi with a book value of US\$208.7 million, which accounted for 36.9% of our total long-term investments as of that date. Notes 10 to our financial statements included in this annual report gives detailed disclosure on our long-term investments.

We typically invested in early-stage companies where we could offer advice and guidance in shaping the company's development. While we primarily invested through the acquisition of non-controlling interests, we would normally obtain a board seat as a condition of making an investment of significant size. In order to prevent our ownership interest from being diluted, we invested in multiple rounds of financing in certain companies. Our strategy of acquiring non-controlling interests allowed us to invest in more companies than would have been the case if we were to only acquire controlling interests. Furthermore, our strategy of acquiring non-controlling interests greatly expanded the selection of companies that we could invest in, as founders of early-stage companies are often unwilling to sell a controlling interest. We believe that our connections with companies with related businesses helped us achieve our strategic goals even in the absence of control.

Due to the risk of being deemed to be an investment company, we launched a transaction on April 30, 2018, to dispose of OPI, the entity that holds most of these investments together with our ZenZone advertising agency business. See "Item 4. Information on the Company—A. History and Development of the Company—The Transaction." As of the date of this annual report, OPI holds shares in 44 portfolio companies and interests in 6 investment funds. These portfolio companies and investment funds have an aggregate book value of US\$530.6 million as of December 31, 2017, and represent the overwhelming majority of our long-term investments in terms of both book value and fair market value.

Our long-term investments in early-stage companies did not significantly impact our results of operations before the year 2016. However, impairment of long-term investments significantly increased our net losses in both 2016 and 2017. We had impairment of long-term investments of US\$102.3 million in the year ended December 31, 2016. Of this, US\$50.8 million was due to impairment of our investment in 268V Limited and US\$32.3 million was due to impairment of our investment in Motif Investing Inc. We also had impairment of long-term investments of US\$113.1 million in the year ended December 31, 2017. Of this, US\$35.0 million was due to impairment of our investment in Credit Shop, Incorporated, US\$15.0 million was due to impairment of our investment in Zhu Chao Holdings Company Limited, US\$12.1 million was due to impairment of our investment in 268V Limited, US\$11.6 million was due to impairment of our investment in Eunke Technology Ltd., US\$11.0 million was due to impairment of our investment in KoolRay Vision Inc. and US\$10.0 million was due to impairment of our investment in Snowball Finance Inc.

In addition to our long-term investments in early-stage companies, we made a number of long-term investments in investment partnerships and short-term investments in financial instruments. These investments were made for cash management purposes. Notes 9 and 10 to our financial statements included in this annual report give detailed disclosure on these investments. See "Item 3.D—Key Information—Risk Factors—Risks Related to Our Business and Industry—If we fail to manage our cash prudently, we may suffer material losses or material fluctuation in the value of our assets or be unable to carry out our business strategies."

Payment Methods and Systems

We have two forms of virtual currency that we make available to our users: “Renren Beans” and “Renren Points.” Renren Beans can be used to purchase any of our IVAS or other paid services and applications for users. Renren Points are for use specifically with our mobile live streaming services. We launched Renren Beans in October 2007 and Renren Points concurrently with our launch of mobile live streaming in March 2016.

Users can acquire Renren Beans and Renren Points online by purchasing the virtual currency directly on our Renren platform through third-party online payment systems through bank cards and mobile and SMS payments, among other methods. In cooperation with third-party payment service providers, such as Alipay, Apple Pay, WeChat Pay, 99 Bills, Yeepay and Jcard, we provide a wide selection of payment services to users.

## Sales and Marketing

### Sales team for financing and SaaS business

We have established a team of sales and marketing personnel dedicated to our financing business. As of December 31, 2017, we had 338 sales and marketing personnel focusing on our growing financing business. Most of these personnel visit used automobile dealerships to persuade dealers to take out or renew loans from us. We also have sales and marketing personnel based in Utah, Arizona and the Philippines who are responsible for growing our incipient Chime business.

### *Used Automobile Sales*

We believe our customer base is similar to the overall market for used automobiles at the typical price points of our vehicles. As of the date of this annual report, the growth of our used auto sales business has primarily been through referrals from one customer to the next. We also believe our strong customer focus ensures customer loyalty which will drive both repeat purchases and referrals. Our sales are primarily made in-store, but we have invested heavily in our online sales channel, including through the Kaixin app and our web interface. We also utilize other online vertical channels. We believe this is a key advantage over our competitors, whether traditional dealers, who do not have a strong offline presence, or online-only competitors, who lack the offline infrastructure and in-store experience we are able to provide.

## Advertising Sales

As is customary in China, we sell our online advertising services and solutions primarily through third-party advertising agencies that represent end-advertisers. Our sales force for online advertising services is organized by industry and provides a broad range of services and solutions.

## Marketing and Brand Promotion

We believe that brand recognition is important to our ability to attract users. We have engaged in both online and offline marketing activities to promote our Renren brand, Chime brand and to rebrand our dealerships, many of which have an established local brand, as Kaixin Dealerships. To date, user recognition of our Renren brand has primarily grown virally, and we have built our Renren brand with modest marketing and brand promotion expenditures. In addition, for our used automotive sales business, we work with dealerships on marketing initiatives to further leverage our Kaixin brand value. Our dealerships also engage in certain other promotional activities, including placement of local radio ads. From 2015 to 2017, we launched a series of online and offline branding campaigns to solidify our Renren brand among the young generation. Although we may have to expand on our promotions from time to time, especially when we launch new services or products, our marketing expenses for these promotions are relatively small when compared to those of our principal competitors.

To encourage such viral growth, we focus on continuously improving the quality of our services, as we believe satisfied users and their friends are more likely to recommend our services to others. We also work with other operators and platforms for cross-marketing and co-branding projects to further leverage our existing brand value.

We have a marketing team that initiates various marketing activities. For example, we market our services through media partnerships, co-branding campaigns with other brands, initiatives with hit movies and sponsorship of cultural events such as music festivals. From 2015 to 2017, we organized a marketing think tank alliance “Young People Matter” with leading consumer brands, major advertising agencies and a variety of other organizations in China. We hosted a series of events for the alliance members to conduct direct conversations with college students, particularly the thought leaders and active users on *renren.com*. We believe that this alliance and its events further strengthened Renren’s reputation as an SNS platform for the young population in China and we expect to continue to actively participate in it.

We are currently aggressively rebranding our dealerships, many of whom have an established local brand, as Kaixin Dealerships. Currently, we are co-branding our dealerships to associate their existing brands with the Kaixin brand, which means “Happiness” in Chinese and has had strong impact and positive response in other applications, including a

social gaming platform previously operated by Renren. By empowering our dealers with this highly recognizable brand name, they will gain further credibility and trustworthiness.

To date, user recognition of our brand has primarily grown virally and by referrals, and we have built our brand with modest marketing and brand promotion expenditures. To encourage such viral growth, we focus on continuously improving the quality of our services, as we believe satisfied users and their friends are more likely to recommend our services to others. In addition, we work with dealerships on marketing initiatives to further leverage our brand value. Our dealerships also engage in certain other promotional activities, including placement of local radio ads.

We anticipate future marketing experience to mostly be performance-based advertising, with the purpose being to drive traffic that translated to customer purchases. We believe this is an appropriate strategy in the premium used automobile market, where customers are widely distributed and who engage in used automobile transactions relatively infrequently. We expect these advertisements will generally fall into three areas: vertical automotive media, selected online channels and selected offline channels. In addition to our paid channels, we intend to attract new customers through enhancing our media and public relations efforts, including organic marketing to enhance our reputation. Although we may have to expand on our promotions from time to time, especially when we launch new services or products, we expect our marketing expenses for these promotions will be relatively small when compared to those of our principal competitors.



## Seasonality

Seasonal fluctuations and industry cyclicalities have affected our business in the past. Our Renren SNS business is indirectly affected during the summer and winter vacations because many students do not broadcast when they are away from school. Our automotive sales business is affected by seasonality in used automobile sales, which tends to affect dealers' need for financing for new inventory. Used automobile sales tend to be lower in the first quarter of each year than in the other three quarters due to the effect of the Chinese New Year holiday. Our financing business is indirectly affected by seasonality in used automobile sales, which tends to affect dealers' need for financing for new inventory. As our financing business and our automotive sales business is still growing rapidly, seasonality may be less evident than it otherwise would be, and as our business continues to evolve, the nature of our seasonality may change.

## Competition

The internet industry in China is rapidly evolving and highly competitive. We face significant competition in almost every aspect of our business. In our social networking business that provides multiple services, including live streaming service and other value-added services, we compete with companies and services such as Tencent's WeChat, QQ mobile, and Q-zone, SINA's Weibo, Momo, YY, Huajiao and Douyu. Competition with these services in the mobile landscape is as intense as with their PC counterparts, if not more so. In our financing business, we primarily compete with the companies of providing financing services to individual consumers and dealerships in automobile financing services. We expect the competition in the internet finance industry in China will continue to intensify as the industry develops in the near future. In relation to our used automobile sales business, our competitors primarily include the publicly and privately owned used and new car dealers, online and mobile sales platforms, as well as millions of private individuals.

We compete for users and user engagement primarily on the basis of helping users communicate, share and have fun on our platform as a result of quality and innovation in our user-facing products, as well as brand name and recognition and quality of user-generated content. We believe the mobile market competitive landscape will continue to intensify in the near future.

We compete for financing business primarily on our risk management and data management capabilities, our brand reputation, our sales capability, our stable partner relationships, our technical strength and our process management.

In addition, the PRC automobile marketplace is highly fragmented. We also compete against many online automobile platforms, including Uxin, Guazi, Dasouche, and Renrenche for our automotive sales business. A number of used

vehicles are also bought and sold through privately negotiated transactions.

## Regulation

This section summarizes the principal current PRC laws and regulations relevant to our business and operations.

### Regulations on Value-Added Telecommunications Services

In 2000, the State Council promulgated the Telecommunications Regulations which draw a distinction between “basic telecommunication services” and “value-added telecommunication services.” The Telecommunications Regulations were subsequently revised in 2014 and again in 2016. In December 2015, the MIIT published the Classification Catalogue of Telecommunications Services, or the 2015 Catalogue, which took effect on March 1, 2016. The first catalogue was published in September 2000 and was subsequently amended in 2001 and 2003, respectively. Under the 2015 Catalogue, “value-added telecommunication services” was further classified into two sub-categories and 10 items. Internet content provision services, or ICP services, is under the second subcategory of value-added telecommunications businesses. Under the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts.

In 2000, the State Council issued the Administrative Measures on Internet Information Services, or the Internet Measures, which were subsequently revised in 2011. According to the Internet Measures, commercial ICP service operators must obtain an ICP license from the relevant government authorities before engaging in any commercial ICP operations within the PRC.

In 2009, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating License, or the Telecom License Measures. On July 3, 2017, Telecom License Measures was further revised and it became effective on September 1, 2017. The Telecom License Measures set forth the types of licenses required to operate value-added telecommunications services and the qualifications and procedures for obtaining such licenses. For example, an ICP operator providing value-added services in multiple provinces is required to obtain an interregional license, whereas an ICP operator providing the same services in one province is required to obtain a local license.

To comply with these laws and regulations, our information services operator, Qianxiang Tiancheng, holds a value-added telecommunications business operating license and an ICP license, and our ICP operators Qianxiang Wangjing and Wole Shijie both hold ICP licenses.

#### Restrictions on Foreign Ownership in Value-Added Telecommunications Services

According to the Provisions on Administration of Foreign Invested Telecommunications Enterprises, or the FITE Provisions, promulgated by the State Council in December 2001 and amended in September 2008 and 2016, the ultimate foreign equity ownership in a value-added telecommunications service provider must not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must demonstrate a good track record and experience in operating value-added telecommunications services. Foreign investors that meet these requirements must obtain approvals from the MIIT and the Ministry of Commerce or its authorized local branches, and the relevant approval application process usually takes six to nine months.

In 2006, the MIIT issued the Notice of the MIIT on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a value-added telecommunication business operating license or its shareholders must legally own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The notice further 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. In addition, all value-added telecommunications service providers are required to maintain network and internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with the requirements in the notice and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holders, including revoking their value-added telecommunications business operating licenses.

To comply with these regulations, we operate our websites through our PRC domestic companies, i.e., Qianxiang Tiancheng, Qianxiang Wangjing and Wole Shijie, each holds relevant licenses and permits.

#### Regulations on Internet Content Services

National security considerations are an important factor in the regulation of internet content in China. The National People's Congress, the PRC's national legislature, has enacted laws with respect to maintaining the security of internet

operations and internet content. According to these laws, as well as the Administrative Measures on Internet Information Services, violators may be subject to penalties, including criminal sanctions, for internet content that:

- opposes the fundamental principles stated in the PRC constitution;
- compromises national security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- undermines the PRC's religious policy or propagates superstition;
- disseminates rumors, disturbs social order or disrupts social stability;
- disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- is otherwise prohibited by law or administrative regulations.

ICP service operators are required to monitor their websites. They may not post or disseminate any content that falls within these prohibited categories and must remove any such content from their websites. The PRC government may shut down the websites of ICP license holders that violate any of the above-mentioned content restrictions, order them to suspend their operations, or revoke their ICP licenses.

In February 2015, the China Internet Network Information Center promulgated the Administrative Provisions on Account Names of Internet Users, which became effective as of March 1, 2015. These provisions require all internet information service users to authenticate their real identity information for the registration of accounts and to comply with seven basic requirements, including observing the laws and regulations, upholding the socialist regime, protecting state interests and, among other requirements, ensuring the authenticity of any information they provide. Relevant internet information service providers are responsible for the protection of users' privacy, the consistency of user information, such as account names, avatars, and the requirements contemplated in the provisions, making reports to the competent authorities regarding any violation of the provisions, and taking appropriate measures to stop any such violations, such as notifying the user to make corrections within a specified time and suspending or closing accounts in the event of continue non-compliance.

To comply with these laws and regulations, we have adopted internal procedures to monitor content displayed on our websites, including a team of employees dedicated to screening and monitoring content uploaded on our websites and removing inappropriate or infringing content.

#### Regulations on Internet Publishing

The Administrative Provisions on Online Publishing Services, or the Online Publishing Provisions, was jointly issued by the MIIT and the State General Administration of Press, Publication, Radio, Film and Television in 2016, and came into effect on March 10, 2016. The Online Publishing Provisions define "online publishing services" as providing online publications to the public through information networks. Any online publishing services provided in the territory of the PRC are subject to these provisions. The Online Publishing Provisions requires any internet publishing services provider to obtain an online publishing service license to engage in online publishing services. Under the Online Publishing Provisions, online publications refers to digital works which have publishing features such as digital work that have been edited, produced or processed and which are made available to the public through information networks, including written works, pictures, maps, games, cartoons, audio/video reading materials and other methods. Any online game shall obtain approval from SAPPRFT before it is launched online. Furthermore, Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises cannot engage in providing web publishing services.

#### Regulations on Information Security

The Ministry of Public Security promulgated measures in 1997, further revised in 2011, that prohibit the use of the internet in ways which, among other things, result in a leakage of state secrets or the distribution of socially destabilizing content. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities. In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets.

In 2005, the Ministry of Public Security promulgated Provisions on Technological Measures for Internet Security Protection, which require all ICP operators to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The ICP operators must regularly update information security systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content. If an ICP operator violates these measures, the PRC government may revoke its ICP license and shut down its websites.

In November 2016, the Standing Committee of the National People's Congress issued the Cyber Security Law, which came into effect on June 1, 2017. This is the first Chinese law that focuses exclusively on cyber security. The Cyber Security Law provides that network operators must set up internal security management systems that meet the requirements of a classified protection system for cybersecurity, including appointing dedicated cybersecurity personnel, taking technical measures to prevent computer viruses, network attacks and intrusions, taking technical measures to monitor and record network operation status and cybersecurity incidents, and taking data security measures such as data classification, backup and encryption. The Cybersecurity Law also imposes a relatively vague but broad obligation to provide technical support and assistance to the public and state security authorities in connection with criminal investigations or for reasons of national security. The Cybersecurity Law also requires network operators that provide network access or domain name registration services, landline or mobile phone network access, or that provide users with information publication or instant messaging services, to require users to provide a real identity when they sign up. The Cyber Security Law sets high requirements for the operational security of facilities deemed to be part of the PRC's "critical information infrastructure." These requirements include data localization, i.e., storing personal information and important business data in China, and national security review requirements for any network products or services that may have an impact on national security. Among other factors, "critical information infrastructure" is defined as critical information infrastructure that will, in the event of destruction, loss of function or data leak, result in serious damage to national security, the national economy and people's livelihood, or the public interest. Specific reference is made to key sectors such as public communication and information services, energy, transportation, water-resources, finance, public service and e-government. However, no official guidelines as to the scope of "critical information infrastructure" have been formally issued.

Our PRC companies which are ICP operators have completed the mandatory security filing procedures with the respective local public security authorities, regularly update their information security and content-filtering systems with newly issued content restrictions, and maintain records of users' information as required by the relevant laws and regulations. They have also taken measures to delete or remove links to content that to their knowledge contains information violating PRC laws and regulations. Substantially all of the content published on our websites is manually screened by employees who are dedicated to screening and monitoring content published on our website and removing prohibited content. All of the other content, primarily consisting of comments posted by users, is first screened by our filtering systems and content containing prohibited words or images is manually screened by our employees. We believe that with these measures in place, no prohibited content under PRC information security laws and regulations should have been publicly disseminated through our website in the past. However, due to the significant amount of content published on our website by our users on a daily basis, if any prohibited content is publicly disseminated in the future and we become aware of it, we will report it to the relevant governmental authority. We believe these measures are generally in compliance with the relevant laws and regulations.

#### Regulations on Internet Privacy

In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The PRC law does not prohibit ICP operators from collecting and analyzing personal information from their users. However, the Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing the lawful rights and interests of a

third party. Pursuant to Decision on Strengthening Network Information Protection promulgated by the Standing Committee of the National People's Congress in 2012, ICP operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent or unless required by law. The regulations further authorize the relevant telecommunications authorities to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. In December 2011, the MIIT promulgated the Several Provisions on Regulating the Market Order of Internet Information Services, which became effective in March 2012. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulge, damage, tamper or loss of users' personal information.

In December 2012, the Standing Committee of the National People's Congress of the PRC issued the Decision on Strengthening the Protection of Online Information. Under this decision, ICP operators are required to take such technical and other measures necessary to safeguard information against inappropriate disclosure. To further implement this decision and relevant rules, MIIT issued the Regulation of Protection of Telecommunication and Internet User Information in 2013.

In November 2016, the Standing Committee of the National People's Congress issued the Cyber Security Law, which came into effect on June 1, 2017. The Cyber Security Law imposes certain data protection obligations on network operators, including that network operators may not disclose, tamper with, or damage users' personal information that they have collected, and that they are obligated to delete unlawfully collected information and to amend incorrect information. Moreover, internet operators may not provide users' personal information to others without consent. Exempted from these rules is information irreversibly processed to preclude identification of specific individuals. Also, the Cyber Security Law imposes breach notification requirements that will apply to breaches involving personal information.



To comply with these laws and regulations, we require our users to accept a user term whereby they agree to provide certain personal information to us, and have established information security systems to protect users' privacy and have filed them with the MIIT or its local branch as required.

## Regulations on Virtual Currency

The Notice on the Reinforcement of the Administration of Internet Cafes and Online Games, jointly issued by the Ministry of Culture, the People's Bank of China and other government authorities in 2007, directs the People's Bank of China to strengthen the administration of virtual currency in online games to avoid any adverse impact on the real economic and financial systems. This notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual users should be strictly limited, with a strict and clear division between virtual transactions and real e-commerce transactions. This notice also provides that virtual currency should only be used to purchase virtual items.

The Notice on the Strengthening of Administration on Online Game Virtual Currency, jointly issued by the Ministry of Culture and the Ministry of Commerce in 2009, broadly defined virtual currency as a type of virtual exchange instrument issued by internet game operation enterprises, purchased directly or indirectly by the game user by exchanging legal currency at a certain exchange rate, saved outside the game programs, stored in servers provided by the internet game operation enterprises in electronic record format and represented by specific numeric units. Virtual currency is used to exchange internet game services provided by the issuing enterprise for a designated extent and time, and is represented by several forms, such as online prepaid game cards, prepaid amounts or internet game points, and does not include game props obtained from playing online games. In 2009, the Ministry of Culture further promulgated the Filing Guidelines on Online Game Virtual Currency Issuing Enterprises and Online Game Virtual Currency Trading Enterprises, which specifically defines "issuing enterprise" and "trading enterprise" and stipulates that a single enterprise may not operate both types of business.

On December 1, 2016, the MOC issued the Online Game Operation Notice, which became effective on May 1, 2017. The Online Game Operation Notice standardizes rules regarding the issuance of virtual items used for online games. The Online Game Operation Notice provides that the issuance and exchange of virtual items issued by online game operators must be administered in accordance with the regulations applicable to virtual currency; that online game operators generally may not allow online game virtual currency to be exchanged for real currency or physical items; requires that, when online game operators allow users to exchange small-value physical items for virtual items, the content and value of such physical items must comply with applicable laws and regulations; and stipulates that online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currencies in exchange for virtual items and services and must publish the results of such lucky draws or lotteries on the website of or other conspicuous location in the game and must maintain all relevant records for at least 90 days. In addition, enterprises engaged in online game operations shall require online game users to register their real names by using valid identity documents and shall limit the amount that an online game user may top up each time in each game.

Qianxiang Wangjing possesses an Online Culture Operating Permit with a business scope encompassing the “issuance of virtual currency.”

#### Regulations on Advertisements

The PRC government regulates advertising, including online advertising, principally through the State Administration for Industry and Commerce. We conduct our advertising business (including our ZenZone business) through consolidated affiliated entities in China, namely Qianxiang Tiancheng and Qianxiang Wangjing.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they prepare or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been performed and the relevant approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In the case of serious violations, the State Administration for Industry and Commerce or its local branches may force the violator to terminate its advertising operation or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties.

In April 2015, the Standing Committee of the National People's Congress issued the PRC Advertising Law or the Advertising Law, which came into effect on September 1, 2015. The Advertising Law applies to all advertising activities conducted via the internet. The Advertising Law requires that users must be able to close online pop-up ads with one click. Moreover, internet service providers are obligated to cease publishing any advertisements that they know or should know are illegal. Violation of these regulations may result in penalties, including fines, confiscation of the advertising incomes, termination of advertising operations and even suspension of the provider's business license.

In July 2016, the State Administration for Industry and Commerce issued the Interim Measures for the Administration of Internet Advertising, which became effective on September 1, 2016. These interim measures clarify that "internet advertisements" means commercial advertisements that promote commodities or services directly or indirectly via internet media such as websites, webpages and internet applications in the form of texts, pictures, audio, video or other forms. These interim measures also create a number of new requirements for internet advertisers. For example, these interim measures state that paid search advertisements should be clearly distinguished from ordinary search results. In addition, consistent with the Advertising Law, these interim measures require that advertisements published on internet pages in the form of pop-ups or other similar forms shall be clearly marked with a "close" button to ensure "one click to close." The measures also prohibit unfair competition in internet advertisement publishing, including (1) providing or using any programs or hardware to intercept or filter any legally operated advertisements of other persons; and (2) using network pathways, network equipment or applications to disrupt the normal data transmission of advertisements, alter or block legally operated advertisements of other persons or load advertisements without authorization. Violation of these regulations may result in fine of no more than RMB 30,000 (US\$4,611), with any punishments administrated by the Administrative Authority for Industry and Commerce in the place where the advertisement publisher is located.

In February 2018, the State Administration for Industry and Commerce promulgated the Notice on Launching Special Overhaul of Internet Advertising. This notice specifies that illegal internet advertisements that have an adverse social impact, generate enormous publicity or are detrimental to the personal and property safety of the public will be regulated more strictly.

#### Regulations on Broadcasting Audio/Video Programs through the Internet

In 2007, the SARFT and the MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services, commonly known as Circular 56, which came into effect as of January 31, 2008. Circular 56 reiterates the requirement set forth in the A/V Broadcasting Rules that online audio/video service providers must obtain a license from the SARFT. Furthermore, Circular 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to relevant official answers to press questions published on the SARFT's website dated February 3, 2008, officials from the SARFT and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Circular 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after

Circular 56 was issued. Such policies have been reflected in the Application Procedure for Audio/Video Program Transmission License.

In 2009, the SARFT released a Notice on Strengthening the Administration of Online Audio/Video Content. This notice reiterated, among other things, that all movies and television shows released or published online must comply with relevant regulations on the administration of radio, film and television. In other words, these movies and television shows, whether produced in the PRC or overseas, must be pre-approved by SARFT, and the distributors of these movies and television shows must obtain an applicable permit before releasing any such movie or television show. In 2012, SARFT and the State Internet Information Office of the PRC issued a Notice on Improving the Administration of Online Audio/Video Content Including Internet Drama and Micro Films. In 2014, the State Administration for Press, Publication, Radio, Film and Television (formed when GAPP was combined with SARFT in March 2013) released a Supplemental Notice on Improving the Administration of Online Audio/Video Content Including Internet Drama and Micro Films. This notice stresses that entities producing online audio/video content, such as internet dramas and micro films, must obtain a permit for radio and television program production and operation, and also that online audio/video content service providers should not release any internet dramas or micro films that were produced with any entity lacking such permit. For internet dramas or micro films produced and uploaded by individual users, the online audio/video service providers transmitting such content will be deemed responsible as the producer. Further, under this notice, online audio/video service providers can only transmit content uploaded by individuals whose identity has been verified and which content complies with the relevant content management rules. This notice also requires that online audio/video content, include internet drama and micro films, be filed with the relevant authorities before release.

In September 2016, SARFT issued a Circular on Strengthening the Administration on Online Live Broadcast of Audio/Video Programs. The circular requires that providers of live online broadcasts of audio/video programs must obtain an audio/video program transmission license. The circular also prohibits any organization or person on the internet from calling themselves a “television” or “television station” without authorization.

In November 2016, the Cyberspace Administration of China issued Regulations for the Administration of Online Live Streaming Services, or the Online Live Streaming Service Regulations, which took effect on December 1, 2016. The Online Live Streaming Service Regulations require that all live streaming services providers and distributors obtain licenses for their services, including that: (i) live streaming services providers and distributors of online streaming news must obtain a permit for the provision of news information services over the internet and (ii) providers of live performance broadcasts or streaming and providers of live broadcasts of online audio/video programs must also obtain the corresponding permits. The Online Live Streaming Service Regulations also require service providers to censor content before releasing it, and to establish systems that allow them to block illegal live streams immediately. The Online Live Streaming Services Regulations introduce “know your performer” procedures for streaming services providers in respect of all performers on their platforms, including through ID checks and real-name verification, as many artists use pseudonyms or stage names. Streaming services providers are also required to verify through follow-up interviews or other means all data they collect in that regard. Access to streaming services is also supposed to be restricted, which means available only with registration. Further, if chat room functions or other interactive services are offered on such sites, then streaming services providers have the added obligation of reporting any illegal content posted by their users to the relevant authorities. However, there are no guidelines as yet as to what constitutes “illegal content.”

In December 2016, the Ministry of Culture released the Administrative Measures for Online Performance Business Activities. These measures target providers of online live performance broadcasts and streaming that derive a profit from such activities through advertising, sponsorship or by charging for access. These measures came into effect on January 1, 2017, and require streaming services providers to obtain a permit from the provincial cultural affairs bureau and to display their license number in a prominent place on the website, such as on the homepage or landing page.

On March 16, 2018, the State Administration of Press, Publication, Radio, Film and Television of the People’s Republic of China issued the Notice on Further Regulating the Order of Transmitting Online Audio-visual Programs. The notice prohibits all online audio/video service providers from engaging in (i) production and transmission of any unauthorized re-editing, re-dubbing or parody of other films, television programs, and online audio-visual programs, (ii) transmitting any trailers or previews of radio and television programs or audio-visual programs that have not obtained the relevant permit or completed required filing procedures. Further, any audio-visual program service provider which has not obtained the License for Online Transmission of Audio-Visual Programs may not engage in sponsorship of or any form of cooperation with any audio-visual program.

Wole Shijie operates *woxiu.com*, a social video platform for users to stream performances live to viewers. For such services, Guangzhou Qunge Information Technology Co., Ltd., a wholly-owned subsidiary of Wole Shijie, currently

holds an ICP license, a Broadcasting and Television Program Production and Management License, as well as an Online Culture Operation License, which among other things permits woxiu.com to provide plays, programs and performances. Guangzhou Qunge does not hold an Audio/Video Program Transmission License. In addition, we also opened our social graph from a friend-based network to a follow-based social network, and multi-likes and mobile live streaming have been added to the app and are rapidly becoming popular features. To provide such services, Qianxiang Wangjing currently holds an ICP license and an Online Culture Operation License, which among other things permits renren.com to provide plays, programs and performances. Qianxiang Wangjing does not hold Audio/Video Program Transmission License.

#### Regulations on Internet Mapping Services

Under the Surveying and Mapping Law adopted by the National People's Congress, entities engaged in surveying and mapping services should obtain a surveying and mapping qualification certificate and comply with the state's surveying and mapping criteria. According to the amended Administrative Rules of Surveying Qualification Certificate and the amended Standard for Surveying Qualification Certificate issued by the National Administration of Surveying, Mapping and Geoinformation in August 2014 and July 2014, respectively, and the Notice on Further Strengthening the Administration of Internet Map Services Qualifications, issued in 2011, the provision of internet mapping services by any non-surveying and mapping enterprise is subject to the approval of the National Administration of Surveying, Mapping and Geoinformation and requires a surveying and mapping qualification certificate. According to these rules, certain conditions and requirements, such as a minimum number of technical and map security verification personnel, security facilities, and approval from relevant provincial or national governments of the service provider's security, qualification management and filing management systems, must be complied with by an enterprise applying for a Surveying and Mapping Qualification Certificate. The Internet Mapping Services License covers the following mapping services: (1) geographic location, (2) geographic information uploading and labeling, and (3) map database development. Qianxiang Wangjing holds a Surveying and Mapping Qualification Certificate for internet mapping.

In November 2015, the State Council enacted the Administrative Regulations on Maps, or the Maps Regulations, effective as of January 1, 2016. The Maps Regulations requires entities engaging in internet mapping services, such as geographic positioning, the uploading of geographic information or markings, and the development of a public map database, to obtain a relevant qualification certificate for surveying and mapping. The Maps Regulations require entities engaging in online map services to use mapping data approved by the relevant governmental authorities, host servers storing map data within the PRC, and establish a management system as well as protection measures for the data security of the online maps. The mapping data must not contain any content prohibited by the Maps Regulations, and no entities or individuals are allowed to upload or mark such prohibited content online. Further, entities engaging in internet mapping services shall keep confidential any information involving state secrets and trade secrets acquired during their work.

### Regulations on Illegal Fund-Raising

Raising funds by entities or individuals from the general public must be conducted in strict compliance with applicable PRC laws and regulations to avoid administrative and criminal liabilities. The Measures for the Banning of Illegal Financial Institutions and Illegal Financial Business Operations promulgated by the State Council in July 1998 and revised in January 2011, and the Notice on Relevant Issues Concerning the Penalty on Illegal Fund-Raising issued by the General Office of the State Council in July 2007, explicitly prohibit illegal public fund-raising. The main features of illegal public fund-raising include: (i) illegally soliciting and raising funds from the general public by means of issuing stocks, bonds, lotteries or other securities without obtaining the approval of relevant authorities, (ii) promising a return of interest or profits or investment returns in cash, properties or other forms within a specified period of time, and (iii) using a legitimate form to disguise the unlawful purpose.

To further clarify the criminal charges and punishments relating to illegal public fund-raising, the Supreme People's Court promulgated the Judicial Interpretations to Issues Concerning Applications of Laws for Trial of Criminal Cases on Illegal Fund-Raising, which came into force in January 2011. These interpretations provide that a public fund-raising will constitute a criminal offense related to "illegally soliciting deposits from the public" under the PRC Criminal Law, if it meets all the following four criteria: (i) the fundraising has not been approved by the relevant authorities or is concealed under the guise of legitimate acts; (ii) the fund-raising employs general solicitation or advertising such as social media, promotion meetings, leafleting and SMS advertising; (iii) the fundraiser promises to repay, after a specified period of time, the capital and interests, or investment returns in cash, properties in kind and other forms; and (iv) the fund-raising targets at the general public as opposed to specific individuals. An illegal fund-raising activity will be fined or prosecuted in the event that it constitutes a criminal offense. Pursuant to these interpretations, an offender that is an entity will be subject to criminal liabilities, if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form (i) with the amount of deposits involved exceeding RMB 1,000,000 (US\$153,697), (ii) with over 150 fund-raising targets involved, or (iii) with the direct economic loss caused to fund-raising targets exceeding RMB 500,000 (US\$76,849), or (iv) the illegal fund-raising activities have caused baneful influences to the public or have led to other severe consequences. An individual offender is also subject to criminal liabilities but with lower thresholds. In addition, an individual or an entity who has aided in illegal fund-raising from the general public and charges fees including but not limited to agent fees, rewards, rebates and commission, constitute an accomplice of the crime of illegal fund-raising. In accordance with the Opinions of the

Supreme People's Court, the Supreme People's Procurator and the Ministry of Public Security on Several Issues concerning the Application of Law in the Illegal Fund-Raising Criminal Cases promulgated on March 25, 2014, the administrative proceeding for determining the nature of illegal fund-raising activities is not a prerequisite procedure for the initiation of criminal proceeding concerning the crime of illegal fund-raising, and the administrative departments' failure in determining the nature of illegal fund-raising activities does not affect the investigation, prosecution and trial of cases concerning the crime of illegal fundraising.

#### Regulations on Internet Finance Services

In July 2015, ten PRC regulatory agencies, including the People's Bank of China, the MIIT and the China Banking Regulatory Commission, jointly issued the Guidelines on Promoting the Healthy Development of Internet Finance, or the Guidelines. The Guidelines call for active government support of China's internet finance industry, including the online peer-to-peer lending service industry, and clarify the division of responsibility among regulatory agencies. The Guidelines specify that the China Banking Regulatory Commission will have primary regulatory responsibility for the online peer-to-peer lending service industry in China and state that online peer-to-peer lending service providers shall act as an intermediary platform to provide information exchange, matching, credit assessment and other intermediary services, and must not provide credit enhancement services and/or engage in illegal fund-raising. The Guidelines provide additional requirements for China's internet finance industry, including the use of custody accounts with qualified banks to hold customer funds as well as information disclosure requirements.



In August 2016, four PRC regulatory agencies, including the China Banking Regulatory Commission, the MIIT, the Ministry of Public Security and Cyberspace Administration of China, published the Interim Measures on the Administration of Business Activities of Peer-to-Peer Lending Information Intermediaries, which we refer to as the Interim Measures. The Interim Measures define online lending intermediaries as the financial information intermediaries that are engaged in online peer-to-peer lending information business and provide lenders and borrowers with lending information services, such as information collection and publication, credit rating, information interaction and loan facilitation. Consistent with the Guidelines, the Interim Measures prohibit online lending intermediaries from providing credit enhancement services and collecting funds directly or indirectly, and require, among others, (i) that online lending intermediaries intending to provide online lending information agency services and its subsidiaries and branches must make relevant record-filing with local financial regulatory authorities with which it is registered after obtaining the business license; (ii) that online lending intermediaries operating telecommunication services must apply for relevant telecommunication service license after the completion of the record-filing and registration with the local financial regulatory authority; and (iii) that online lending intermediaries must materially specify the online lending information intermediary in the business scope.

The Interim Measures list the following businesses that an online lending intermediary must not, by itself or on behalf of a third party, participate in: (i) financing for themselves whether or not in disguised form; (ii) accepting or collecting directly or indirectly the funds of lenders; (iii) providing lenders with guarantee or promise on guarantee of principal and interest directly or in disguised form; (iv) publicizing or promoting financing projects at physical locations or entrusting or authorizing a third party to do so; (v) extending loans, except otherwise as provided by laws and regulations; (vi) splitting the term of any financing project; (vii) offering wealth management and other financial products by themselves to raise funds, and selling as an agent bank wealth management, securities company asset management, fund, insurance or trust products and other financial products; (viii) conducting asset securitization business or realizing transfer of creditors' rights in the forms of asset packaging, asset securitization, trust assets, fund shares, etc.; (ix) engaging in any form of mixture, bundling or agency with other institutions in investment, agency in sale, brokerage and other business except as permitted by laws, regulations and relevant regulatory provisions on online peer-to-peer lending; (x) falsifying or exaggerating earnings outlook of financing projects, concealing the defects and risks of financing projects, making false advertising or promotion, etc., by using ambiguous words or other fraudulent means, fabricating or spreading false or incomplete information impairing the business reputation of others or misleading lenders or borrowers; (xi) providing information intermediary services for high-risk financing which uses the borrowed funds for investment in stocks, over-the-counter fund distribution, futures contracts, structured funds and other derivative products; (xii) engaging in businesses such as crowd-funding in equity; and (xiii) other activities prohibited by the laws, regulations and the regulatory provisions on online peer-to-peer lending. In addition, the Interim Measures stipulate that online lending intermediaries shall not operate businesses other than risk management and necessary business processes such as information collection and confirmation, post-loan tracking and pledge management in accordance with online lending regulations, via offline physical locations. Furthermore, the Interim Measures provide that online lending intermediaries shall, based on their risk management capabilities, set upper limits on the loan balance of a single borrower borrowing both from one online lending intermediary and from all online lending intermediaries. In the case of natural persons, this limit shall not be more than RMB200,000 for one online lending intermediary and not more than RMB1 million in total from all platforms, while the limit for a legal person or organization shall not be more than RMB1 million for one online lending intermediary and not more than RMB5 million in total from all platforms. Moreover, the Interim Measures require that each online lending intermediary (i) separate its own capital from funds received from lenders and borrowers and (ii) select a qualified banking financial institution as its funding custodian institution, which shall perform custody and administrative responsibilities as required.

The Interim Measures also set out certain additional requirements applicable to online lending intermediaries on, among other things, the real-name registration of lenders and borrowers, the risk control, internet and information security, limits on the fund collection period (up to 20 business days), allocation of charges, personal credit management, file management, lenders and borrowers protection, prohibition on making decisions by online lending intermediaries on behalf of the lender without the authorization of the lender, administration of electronic signatures and information disclosure. Any violation of the Interim Measures by an online lending intermediary may subject such online lending intermediary to certain penalties as determined by applicable laws, and regulations, or by relevant government authorities if the applicable laws and regulations are silent on the penalties. The applicable penalties may include but are not limited to, criminal liabilities, warning, rectification, tainted integrity record and fines of up to RMB30,000. If any online lending intermediary established prior to the implementation of these Interim Measures fails to conform to the provisions of these Interim Measures, the local financial regulatory authority shall require such online lending intermediary to make rectification, and the rectification period shall not exceed 12 months.

On October 28, 2016, the China Banking Regulatory Commission, the MIIT and the State Administration for Industry and Commerce jointly published the Guidelines on the Administration of Record-filings of Online Lending Information Intermediary Agencies to establish and improve the record-filing mechanisms for online lending intermediaries. According to the guidelines, a newly established online lending intermediary shall make the record-filings with the local financial regulatory authority after obtaining the business license; while with respect to any online lending intermediary which is established and begins to conduct the business prior to the publication of these guidelines, the local financial regulatory authority shall, pursuant to relevant arrangement of specific rectification work for risks in online peer-to-peer lending, accept the application for record-filings submitted by a qualified online lending intermediary, or any online lending intermediary which has completed the rectification confirmed by relevant authorities.

On February 22, 2017, the China Banking Regulatory Commission released the Guidelines to Regulate Funds Custodian for online lending intermediaries. These guidelines define depositories as commercial banks that provide online lending fund custodian services, and stipulate that the depositories shall not engage in offering any guarantee, including: (i) offering guarantees for lending transaction activities conducted by online lending intermediaries, or undertaking any liability for breach of contract related to such activities; (ii) offering guarantees to lenders, guaranteeing principal and dividend payments or bearing the risks associated with fund lending operations for lenders.

On April 18, 2017, the Online Lending Rectification Office issued the Notice on the Performance of Check and Rectification of Cash Loan Business Activities and a supplementary notice. This notice requires the local branches of the Online Lending Rectification Office to conduct a comprehensive review and inspection of the cash loan business of online lending platforms and require such platforms to implement necessary improvements and remediation within a specific period to comply with the relevant requirements under the applicable laws and regulations. The notice focuses on preventing malicious fraudulent activities, loans that are offered at excessive interest rates and violence in the loan collection processes in the cash loan business operation of online lending platforms. The Online Lending Rectification Office also issued a list of cash loan business activities that are to be examined.

On August 23, 2017, the General Office of the China Banking Regulatory Commission released the Guidelines on Information Disclosure of Business Activities of Online Lending Information Intermediaries. Consistent with the Interim Measures, these guidelines emphasize the requirement of information disclosure by an online lending intermediary and further, detail the frequency and scope of such information disclosure. Any violation of the these guidelines by an online lending intermediary may subject the online lending intermediary to certain penalties under Interim Measures. In addition, the guidelines require online lending intermediaries that do not fully comply with the guidelines in conducting their business to rectify the relevant activities within six months after the release of the guidelines.

On December 1, 2017, the Internet Finance Rectification Office and the Online Lending Rectification Office jointly issued the Notice on Regulating and Rectifying “Cash Loan” Business, or Circular 141, outlining general requirements on the “cash loan” business conducted by network microcredit companies, banking financial institutions and online

lending information intermediaries. Circular 141 specifies the features of “cash loans” as not relying on consumption scenarios, with no specified use of loan proceeds, no qualification requirement on customers and unsecured etc. Circular 141 sets forth several general requirements with respect to “cash loan” business, including, without limitation: (i) no organizations or individuals may conduct the lending business without obtaining approvals for the lending business; (ii) the aggregated borrowing costs of borrowers charged by institutions in the forms of interest and various fees should be annualized and subject to the limit on interest rate of private lending set forth in the Private Lending Judicial Interpretations issued by the Supreme People's Court; (iii) all relevant institutions shall follow the “know-your-customer” principle and prudentially assess and determine the borrower's eligibility, credit limit and cooling-off period, etc. Loans to any borrower without income sources are prohibited; and (iv) all relevant institutions shall enhance the internal risk control and prudentially use the “data-driven” risk management model. In additions, Circular 141 emphasizes several requirements on the online lending information intermediaries. For instance, such intermediaries are prohibited from facilitating any loans to students or other persons without repayment source or repayment capacity, or loans with no designated use of proceeds. Also, such intermediaries are not permitted to deduct interest, handling fee, management fee or deposit from the principal of loans provided to the borrowers in advance. Any violation of Circular 141 may result in penalties, including but not limited to suspension of operation, orders to make rectification, condemnation, disapproval of recordation, revocation of license, order to cease business operation, and criminal liabilities.

There are also certain rules, laws and regulations relevant or applicable to the online peer-to-peer lending service industry, including the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People's Court.

Due to the relatively short history of peer-to-peer lending in China, the regulatory framework governing the industry is still under development and the PRC government authority may promulgate new laws and regulations regulating peer-to-peer lending services in the future, we cannot assure you that our practice would not be deemed to violate any PRC laws or regulations, especially relating to illegal fund-raising, credit enhancement services and/or information disclosure. See "Item 3.D—Key Information—Risk Factors—Risks Related to Our Business and Industry—The laws and regulations governing internet finance service in China are evolving and subject to changes. If our practices are deemed to violate any PRC laws or regulations, our business, financial conditions and results of operations would be materially and adversely affected."

#### Regulations on Consumer Finance Companies

Pursuant to the Administrative Measures for Pilot Consumer Finance Companies issued by the China Banking Regulatory Commission in November 2013, establishing a consumer finance service company is subject to approval from the China Banking Regulatory Commission, and the company should also satisfy certain requirements such as having qualified contributors, with registered capital no less than minimum amount specified, and having eligible directors and senior managements and qualified practitioners familiar with consumer finance business, among other requirements. Pursuant to these measures, consumer finance companies are defined as non-banking financial institutions incorporated within the territory of China upon the approval of the China Banking Regulatory Commission, providing PRC domestic residents with loans for consumption purposes, but excluding real estate loans and motor loans.

Both domestic and foreign financial institutions and other contributors recognized by the China Banking Regulatory Commission are allowed to invest in consumer finance companies. The major investor of a consumer finance company, by which is meant an investor who contributes 30 percent or more of the consumer finance company's registered capital, must meet a set of stringent requirements, including that the investor have at least five years' experience in the consumer finance sector, that its total assets at the end of the most recent fiscal year be no less than RMB 60 billion (US\$9.2 billion) or its equivalent foreign currency, and that it be in a sound financial situation and have been profitable for the most recent two fiscal years.

#### Anti-money Laundering Regulations

The PRC Anti-money Laundering Law, which became effective in January 2007, sets forth the principal anti-money laundering requirements applicable to financial institutions as well as non-financial institutions with anti-money laundering obligations, including the adoption of precautionary and supervisory measures, establishment of various systems for client identification, retention of clients' identification information and transactions records, and reports on large transactions and suspicious transactions. According to the PRC Anti-money Laundering Law, financial institutions subject to the PRC Anti-money Laundering Law include banks, credit unions, trust investment companies, stock brokerage companies, futures brokerage companies, insurance companies and other financial institutions as listed and published by the State Council, while the list of the non-financial institutions with anti-money laundering obligations will be published by the State Council. The People's Bank of China and other governmental authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. However, the State Council has not promulgated the list of the non-financial institutions with anti-money laundering obligations.

The Guidelines jointly released by ten PRC regulatory agencies in July 2015, purport, among other things, to require internet finance service providers, including online peer-to-peer lending platforms, to comply with certain anti-money laundering requirements, including the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The People's Bank of China will formulate implementing rules to further specify the anti-money laundering obligations of internet finance service providers.

The General Office of the State Council promulgated the Opinions on Improving Anti-Money Laundering, Anti-Terrorism Financing and Anti-Tax Evasion Regulatory Systems and Mechanisms on August 29, 2017. According to the opinions, the establishment of anti-money laundering financial regulatory systems for particular non-financial institutions is required to meet international anti-money laundering standards, and certain industries prone to a high risk of money laundering, such as real estate agents, precious metal and jeweler sales, corporate services and other specific non-financial industries, will be strictly regulated.

## Regulations on Financing Leasing

In September 2013, the Ministry of Commerce 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, and 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 financing and internal risk control system, 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 on Vehicle Leasing Programs Operating on a Sale-and-Leaseback Basis

On July 11, 2013, the Ministry of Commerce published an Announcement on Strengthening and Improving the Approval and Administration of Foreign-Funded Finance Leasing Companies, which states that no foreign-funded finance leasing company shall engage in activities such as taking deposits, offering loans or being entrusted to grant loans. Further, without approval from relevant authorities, such an enterprise shall not conduct an interbank lending business or an equity investment business. On September 18, 2013, the Ministry of Commerce issued Administrative Measures for the Supervision of Financial Leasing Enterprises which require, in part, that financial leasing enterprises have assets and risk management abilities sufficient for their proposed business activities. These measures also require that foreign investors applying for the establishment of a financial leasing enterprise must comply with relevant provisions on foreign investment. The Guidance of the General Office of the State Council on Accelerating the Development of Financing Leasing Industry, issued by the General Office of the State Council in 2015, requires the establishment of a unified administrative and regulatory system for domestic as well as foreign investment in the leasing industry. According to this guidance, foreign investment in the leasing industry is entitled to enjoy the same treatment as domestic investment in terms of business scope, trading rules, regulatory indicators, information submission and inspection.

The Stipulation on Motor Vehicle Registration issued on May 27, 2008 and amended on September 12, 2012 by the Ministry of Public Security states that the new owner of a vehicle must submit an application for registration of transfer to the local vehicle administration office within 30 days after the delivery of the vehicle. Also, under the Property Law effective as of October 1, 2007, the transfer of movable property is effective upon delivery, but if the transfer of the property right of a vehicle has not been officially registered, it will not be valid against a good faith third-party transferee. In connection with this requirement, the Interpretation of the Supreme People's Court on Issues Concerning the Application of Law in Cases of Finance Lease Contract Disputes came into force on March 1, 2014,

providing guidelines on resolving finance lease contract disputes. This interpretation states that if a lessor authorizes a lessee to mortgage a leased item (a vehicle) to the lessor and to legally complete the mortgage registration with the registration authority, this arrangement could be valid as against a title claim made by a good faith third party, even if the transfer of the property right of the vehicle has not been officially registered.

Our loans to used automobile dealerships are structured on a sale-and-leaseback basis. However, we do not update the vehicle registrations to reflect our purchase of leased vehicles nor file mortgage registrations for the leased vehicles. Consequently, we lack unambiguous legal basis to prevent a good-faith third-party buyer from taking legal title to a vehicle if the lessor attempts to sell the vehicle without our knowledge. See “Item 3.D—Key Information—Risk Factors—Risks Related to Our Business and Industry—We rely on contractual obligations rather than government filings to ensure our continued title to vehicles managed under our vehicle leasing program.”



### Regulations on Used Automobile Trading

On August 29, 2005, the State Administration of Taxation, the State Administration for Industry and Commerce, the Ministry of Commerce and the Ministry of Public Security jointly promulgated the Measures for the Administration of the Trading of Used Automobiles, or the Used Automobile Trading Measures, which became effective on October 1, 2005 and was further revised on September 14, 2017. Pursuant to the Used Automobile Trading Measures, only an enterprise legal person duly registered with the State Administration for Industry and Commerce or its local branches may engage in used automobile trading, either as an operator of used automobiles markets, as a retailer, or as a brokerage entity.

Under the Used Automobile Trading Measures, a seller of used automobiles must verify certain background information regarding the automobiles for sale, including verification of the identity certificate of the previous owner, the number plate of the automobile, the motor vehicle registration certificate, driver's license of the previous owner, proof that the automobile has passed the security technical examination, automobile insurance, and payment certificate of relevant taxes and fees. Used automobile retailers shall also provide quality guarantees as well as after-sales services, information about which shall be clearly indicated at its business location from 2018. Furthermore, under certain circumstances, used automobiles are prohibited from being resold, including instances where an automobile has been discarded as unusable, been required to be discarded, or been obtained by illegal means, such as through theft, robbery or fraud.

On March 24, 2006, the Ministry of Commerce promulgated the Specifications for Used Automobile Trade, which provided detailed requirements as to the responsibilities of used automobiles trading entity regarding the trading of used automobiles, including the confirmation of the identity of the seller and the legitimacy of the used automobiles, signing contract for used automobile trading, establishing transaction archives and keeping records for at least three years.

### Regulations on Automobile Sales

On April 5, 2017, the Ministry of Commerce promulgated the Measures on the Administrations of Sales of Automobile, or the Measures on Sales of Automobile, which came into effect on July 1, 2017 and the original Implementation Measures for the Administration of Sales of Branded Automobile, or the "Branded Automobile Sales Measures" will be abolished at the same time. According to the Measures on Sales of Automobile, the supplier and distributors of automobiles within the territory of the PRC shall build up an integrated system for automobile sales and after-sales services, guarantee supply of the related auto accessory, provide timely and effective after-sales services, and strictly follow the regulations concerning, among others, 3R (i.e. "replace, repair and refund") and recall of household automobiles to guarantee consumers' legitimate rights and interests. A dealer who sells an automobile without authorization from a supplier or an automobile which is not authorized to be sold by an automobile

manufacturer outside the country shall provide a reminder and explanation to the consumer in writing and inform the consumer of the relevant responsibility in writing. When the dealer sells the car to the consumer, it shall verify the valid identity certificate of the registered consumer, sign the sales contract, and issue the sales invoice.

#### Regulations on Parallel-import Automobile Sales

On February 22, 2016, the Ministry of Commerce, the Ministry of Industry and Information Technology, Ministry of Environmental Protection, Ministry of Transport, General Administration of Customs, General Administration of Quality Supervision and Inspection and Quarantine and Certification and Accreditation Administration of the People's Republic of China jointly issued Several Opinions on Promotion of Pilot Program of Parallel-import Automobile. According to these opinions, pilot enterprises can import automobiles and establish a distribution network without authorization from a supplier, and can apply for an automatic import license for automobile products according to their actual business operation requirements. Pilot enterprises shall be subject to the regulations on administration of automatic import licenses, submit the license for verification and complete the customs formalities at the import entrance.

On April 27, 2017, Shanghai Municipal Commission of Commerce and China (Shanghai) Pilot Free Trade Zone Administration jointly issued Notice on Adjustment on the Pilot Enterprises of Parallel-import Automobile in China (Shanghai) Pilot Free Trade Zone, which requires that the pilot enterprises registered in China (Shanghai) Pilot Free Trade Zone shall obtain an automatic import license to sale imported automobile without authorization from the automobile producer, and shall meet the following requirements to operate parallel-import Automobile business: (1) it shall has been operating sales of imported automobile for at least one year and its sales business has reached a certain scale; (2) the pilot enterprise or any of its wholly owned enterprise/ controlling enterprise with automobile sales certificate is registered in China (Shanghai) Pilot Free Trade Zone; (3) it has branches and facilities for maintenance, service and supply of auto parts that match its business scale. Any pilot enterprise that can't meet this requirement shall depend on a third party to provide such services to participate in the pilot program; (4) it has good reputation and has perfect purchasing channels of oversea automobile and abundant experience in automobile sales industry; (5) the enterprise that has participated in the pilot program and has parallel-import records at Shanghai port shall be prioritized.

## Regulations on Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including trademarks, patents and copyrights. China is a signatory to the major international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

*Patent.* The Patent Law was originally adopted in 1984. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs. A third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of patent rights. We have obtained 11 patents granted by the State Intellectual Property Office.

*Copyright.* The Copyright Law was originally adopted in 1990. The Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. The amended Copyright Law also requires registration of a copyright pledge.

Pursuant to the relevant PRC regulations, rules and interpretations, ICP operators will be jointly liable with the infringer if they (i) participate in, assist in or abet infringing activities committed by any other person through the internet, (ii) are or should be aware of the infringing activities committed by their website users through the internet, or (iii) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. The court will determine whether an internet service provider should have known of their internet users' infringing activities based on how obvious the infringing activities are by taking into consideration a number of factors, including (i) the information management capabilities that the provider should have based on the possibility that the services provided by it may trigger infringing acts, (ii) the degree of obviousness of the infringing content, (iii) whether it has taken the initiative to select, edit, modify or recommend the contents involved, (iv) whether it has taken positive and reasonable measures against infringing acts, and (v) whether it has set up convenient programs to receive notices of infringement and made timely and reasonable responses to the notices. Where an internet service provider has directly obtained economic benefits from any contents made available by an internet user, it shall have a higher duty of care with respect to the internet user's act of infringement of others' copyrights. Advertisements placed for or other benefits particularly connected with specific contents may be deemed as direct economic benefits from such contents, but general advertising fees or service fees charged by an internet service provider for its internet services will not be included. In addition, where an ICP operator is clearly aware of the infringement of certain content against another's copyright through the internet, or fails to take measures to remove relevant contents upon receipt of the copyright holder's notice, and as a result, it damages the public interest, the ICP operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines. An ICP operator is also required to retain all infringement notices for a minimum of six months and to record the content, display time and IP addresses or the

domain names related to the infringement for a minimum of 60 days.

An internet service provider may be exempted from liabilities for providing links to infringing or illegal content or providing other internet services which are used by its users to infringe others' copyright, if it does not know and does not have constructive knowledge that such content is infringing upon other parties' rights or is illegal. However, if the legitimate owner of the content notifies the internet service provider and requests removal of the links to the infringing content, the internet service provider would be deemed to have constructive knowledge upon receipt of such notification, but would be exempted from liabilities if it removes or disconnects the links to the infringing content at the request of the legitimate owner. At the request of the alleged infringer, the internet service provider should immediately restore links to content previously disconnected upon receipt of initial non-infringing evidence.

We have adopted measures to mitigate copyright infringement risks. For example, our policy is to remove links to web pages if we know these web pages contain materials that infringe third-party rights or if we are notified by the legitimate copyright holder of the infringement with proper evidence.

*Software products.* In China, holders of computer software copyrights enjoy protections under the Copyright Law. Various regulations relating to the protection of software copyrights in China have promulgated, including the Copyright Law, which was originally promulgated in 1990, the Regulation for the Implementation of the Copyright Law, which originally came into effect in September 2002, and the Measures for the Registration of Computer Software Copyright, which were issued by the National Copyright Administration in 2002. Under these regulations, computer software that is independently developed and exists in a physical form is protected, and software copyright owners may license or transfer their software copyrights to others. Registration of software copyrights, exclusive licensing and transfer contracts with the Copyright Protection Center of China or its local branches is encouraged. Such registration is not mandatory under Chinese law, but can enhance the protections available to the registered copyrights holders. The Computer Software Copyright Registration Procedures, issued by the National Copyright Administration in 2002, apply to software copyright registration, license contract registration and transfer contract registration. We have registered 52 computer software copyrights in compliance with the above rules and to take advantage of the protections under them.

*Trademark.* The PRC Trademark Law was originally adopted in 1982. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years for registered trademarks, plus another ten years if requested upon expiration of the first or any subsequent ten-year term. Trademark license agreements must be filed with the Trademark Office for record. “ ” and “ ” are registered trademarks in China. We have also applied with the Trademark Office to register additional trademarks and logos, including “ ”, “ ”

*Domain Names.* In 2002, the CNNIC issued the Implementing Rules for Domain Name Registration setting forth detailed rules for registration of domain names. On August 24, 2017, the MIIT promulgated the Administrative Measures for Internet Domain Names. These measures regulate the registration of domain names, such as the first tier domain name “.cn.” In November 2014, the CNNIC issued the Rules of First-Tier Domain Dispute Resolution, pursuant to which the CNNIC can authorize a domain name dispute resolution institution to decide disputes. We have registered domain names including *renren.com*, *xiaonei.com*, *kaixin.com*, *chimeroi.com* and *mumiantv.com*. In December 2013, we entered into a Registry Agreement with ICANN, which grants us the right to use the generic top level domain name .ren.

### ***Regulations on Anti-unfair Competition***

Under the Anti-Unfair Competition Law, effective in 1993 and revised in 2017, a business operator is prohibited from carrying out acts intending to cause confusion, which would mislead others into thinking that its products belong to another party or that there is an association with another party, by:

using without permission, a mark that is identical with or similar to product names, packaging or decoration of others with a certain degree of influence;

using without permission, the name of an enterprise, a social organization or an individual with a certain degree of influence;

using without permission, the main element of a domain name, website name or webpage with a certain degree of influence;

carrying out confusing acts that are intended to mislead others into thinking that a product belongs to another party or there is an affiliation with another party.

### Regulations on Foreign Exchange

Under the Foreign Currency Administration Rules, if documents certifying the purposes of the conversion of RMB into foreign currency are submitted to the relevant foreign exchange conversion bank, the RMB will be convertible for current account items, including the distribution of dividends, interest and royalties payments, and trade and service-related foreign exchange transactions. Conversion of RMB for capital account items, such as direct investment, loans, securities investment and repatriation of investment, however, is subject to the approval of SAFE or its local counterpart.

Under the Administration Rules for the Settlement, Sale and Payment of Foreign Exchange, which were promulgated in 1996, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE or its local counterpart. Capital investments by PRC entities outside of China, after obtaining the required approvals of the relevant approval authorities, such as the Ministry of Commerce and the National Development and Reform Commission or their local counterparts, are also required to register with SAFE or its local counterpart.

In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment, also known as SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 13 delegates the power to enforce the foreign exchange registration in connection with inbound and outbound direct investments under SAFE rules from local branches of SAFE to banks, thereby further simplifying the foreign exchange registration procedures for inbound and outbound direct investments

In March 2015, SAFE issued the Circular on Reform of the Administrative Rules of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which became effective on June 1, 2015. Pursuant to SAFE Circular 19, foreign-invested enterprises may either continue to follow the current payment-based foreign currency settlement system or choose to follow the “conversion-at-will” system for foreign currency settlement. Where a foreign-invested enterprise follows the conversion-at-will system for foreign currency settlement, it may convert part or all of the amount of the foreign currency in its capital account into Renminbi at any time. The converted Renminbi will be kept in a designated account labeled as settled but pending payment, and if the foreign-invested enterprise needs to make payment from such designated account, it still needs to go through the review process with its bank and provide necessary supporting documents. SAFE Circular 19, therefore, has substantially lifted the restrictions on the usage by a foreign-invested enterprise of its Renminbi registered capital converted from foreign currencies. According to SAFE Circular 19, such Renminbi capital may be used at the discretion of the foreign-invested enterprise and SAFE will eliminate the prior approval requirement and only examine the authenticity of the declared usage afterwards. Nevertheless, foreign-invested enterprises like our PRC subsidiaries are still not allowed to extend intercompany loans to our VIEs. In addition, as SAFE Circular 19 was promulgated recently, there remain substantial uncertainties with respect to the interpretation and implementation of this circular by relevant authorities.

In utilizing funds that we hold offshore, as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or consolidated affiliated entities, or (iv) acquire offshore entities with business operations in China in offshore transactions. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to our PRC subsidiaries, whether existing or newly established ones, must be approved by the Ministry of Commerce or its local counterparts;

- loans by us to our PRC subsidiaries, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local branches; and

- loans by us to our consolidated affiliated entities, which are domestic PRC entities, must be approved by the National Development and Reform Commission and must also be registered with SAFE or its local branches.

## Regulations on Dividend Distribution

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

As of December 31, 2017, the registered capital of our wholly foreign-owned subsidiary Qianxiang Shiji was US\$180.0 million with paid-in capital of US\$175.0 million. Qianxiang Shiji has not made any profits to date, and thus is not subject to the statutory reserve fund requirement. Qianxiang Shiji has not and will not be able to pay dividends to our offshore entities until they generate accumulated profits and meet the requirements for statutory reserve funds. As of December 31, 2017, our PRC subsidiary Qianxiang Shiji had an accumulated deficit of approximately US\$64.6 million in accordance with PRC accounting standards and regulations.

## Regulations on Offshore Investment by PRC Residents

In July 2014, SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Control of Domestic Residents' Overseas Investment and Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or SAFE Circular 37, which replaced the former Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or SAFE Circular 75, promulgated by SAFE in 2005.



SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, which is referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC residents, share transfer or exchange, merger, division or other material events. In the event that a PRC resident holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

We have made due inquiries with the competent local branch of SAFE regarding the applicability of the above foreign exchange registration requirements to our founder and our PRC resident shareholders.

#### Regulations on Employee Stock Options Plans

In 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions, such as a PRC citizen's participation in employee stock ownership plans or share option plans of an overseas publicly listed company and it was further amended on May 29, 2016. In 2012, SAFE promulgated the Notice on the Administration of Foreign Exchange Matters for Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies, or the Stock Option Notice, which simplifies the requirements and procedures for the registration of stock incentive plan participants, especially in respect of the required application documents and the absence of strict requirements on offshore and onshore custodian banks.

Under these rules, for PRC resident individuals who participate in stock incentive plans of overseas publicly listed companies, which includes employee stock ownership plans, stock option plans and other incentive plans permitted by relevant laws and regulations, a PRC domestic qualified agent or the PRC subsidiary of such overseas listed company must, among other things, file on behalf of such resident an application with SAFE or its local counterpart to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock holding or share option exercises, as PRC residents may not directly use overseas funds to purchase shares or exercise share options. In addition, within three months after any substantial changes to any such stock incentive plan, including example any changes due to a merger or acquisition or changes to the domestic or overseas custodian agent, the domestic agent must update the registration with SAFE.

Under the Foreign Currency Administration Rules, as amended in 2008, the foreign exchange proceeds of domestic entities and individuals can be remitted into China or deposited abroad, subject to the terms and conditions to be issued by SAFE. However, the implementing rules in respect of depositing the foreign exchange proceeds abroad have not been issued by SAFE. The foreign exchange proceeds from the sales of shares can be converted into RMB or transferred to such individuals' foreign exchange savings account after the proceeds have been remitted back to the special foreign exchange account opened at the PRC domestic bank. If share options are exercised in a cashless exercise, the PRC domestic individuals are required to remit the proceeds to special foreign exchange accounts.

In addition, the State Administration of Taxation has issued circulars concerning employee share options. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and withhold the individual income taxes of employees who exercise their share options.

## Labor Laws and Social Insurance

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employers must execute written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with workplace safety training. In addition, employers in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative liabilities. Criminal liability may arise for serious violations. To comply with these laws and regulations, we have caused all of our full-time employees to enter into labor contracts and provide our employees with the proper welfare and employment benefits.

## Regulations on Concentration in Merger and Acquisition Transactions

In August 2006, six PRC regulatory agencies jointly adopted the R