

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

**FORM 20-F**

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2016

OR

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

OR

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

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

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

Commission file number 001-36896

**JMU Limited**

---

(Exact name of Registrant as specified in its charter)

N/A

---

(Translation of Registrant's name into English)

**Cayman Islands**

---

(Jurisdiction of incorporation or organization)

**North Guoquan Road 1688 Long  
No. 75, Building A8, 6F  
Yangpu District, Shanghai 200438  
People's Republic of China**

---

(Address of principal executive offices)

**Frank Zhigang Zhao  
Chief Financial Officer  
North Guoquan Road 1688 Long  
JMU Limited  
No. 75, Building A8, 6F  
Yangpu District, Shanghai 200438  
People's Republic of China  
Phone: +86 21 6015 1166**

---

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

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

Title of Each Class	Name of each exchange on which registered
American Depositary Shares, each representing 18 ordinary shares, par value US\$0.00001 per share	The NASDAQ Global Market

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

None
(Title of Class)

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

None  
(Title of Class)

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

1,475,645,946 Ordinary Shares (excluding 562,724 ordinary shares in the form of ADS that are reserved for issuance upon the exercise of outstanding options) as of December 31, 2016

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 the definitions 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

(Do not check if a smaller reporting company)

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

<sup>†</sup> 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

---

## TABLE OF CONTENTS

<a href="#">INTRODUCTION</a>	2
<a href="#">FORWARD-LOOKING STATEMENTS</a>	2
<a href="#">PART I</a>	3
Item 1. <a href="#">Identity of Directors, Senior Management and Advisers</a>	3
Item 2. <a href="#">Offer Statistics and Expected Timetable</a>	3
Item 3. <a href="#">Key Information</a>	3
Item 4. <a href="#">Information on the Company</a>	36
Item 4A. <a href="#">Unresolved Staff Comments</a>	51
Item 5. <a href="#">Operating and Financial Review and Prospects</a>	51
Item 6. <a href="#">Directors, Senior Management and Employees</a>	69
Item 7. <a href="#">Major Shareholders and Related Party Transactions</a>	78
Item 8. <a href="#">Financial Information</a>	81
Item 9. <a href="#">The Offer and Listing</a>	81
Item 10. <a href="#">Additional Information</a>	82
Item 11. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	99
Item 12. <a href="#">Description of Securities Other than Equity Securities</a>	99
<a href="#">PART II</a>	100
Item 13. <a href="#">Defaults, Dividend Arrearages and Delinquencies</a>	100
Item 14. <a href="#">Material Modifications to the Rights of Security Holders and Use of Proceeds</a>	100
Item 14E. <a href="#">Use of Proceeds</a>	100
Item 15. <a href="#">Controls and Procedures</a>	100
Item 16.	102
Item 16A. <a href="#">Audit Committee Financial Expert</a>	102
Item 16B. <a href="#">Code of Ethics</a>	102
Item 16C. <a href="#">Principal Accountant Fees and Services</a>	102
Item 16D. <a href="#">Exemptions from the Listing Standards for Audit Committees</a>	102
Item 16E. <a href="#">Purchases of Equity Securities by the Issuer and Affiliated Purchasers</a>	103
Item 16F. <a href="#">Change in Registrant's Certifying Accountant</a>	103
Item 16G. <a href="#">Corporate Governance</a>	104
Item 16H. <a href="#">Mine Safety Disclosure</a>	105
<a href="#">PART III</a>	105
Item 17. <a href="#">Financial Statements</a>	105
Item 18. <a href="#">Financial Statements</a>	105
Item 19. <a href="#">Exhibits</a>	105

## INTRODUCTION

### Conventions Used in this Annual Report

In this annual report, unless otherwise indicated or the context otherwise requires, references to:

- “we”, “us”, “our company”, or “our” refers to JMU Limited, which was formerly known as Wowo Limited, its subsidiaries and its consolidated affiliated entities;
- “ordinary shares” refer to our ordinary shares, par value US\$0.00001 per share;
- “ADS” refers to our American depositary shares, each of which represents 18 ordinary shares;
- “Our VIE” refers to Shanghai Zhongmin Supply Chain Management Co. Ltd., which together with its subsidiaries, we consolidate as variable interest entities;
- “Our WFOE” refers to Shanghai Zhongming Supply Chain Management Co. Ltd., our subsidiary in China that is a wholly foreign-owned enterprise and has entered into contractual arrangements that give it effective control over Our VIE;
- “China” or the “PRC” refers to the People’s Republic of China excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan;
- “Renminbi” or “RMB” refers to the legal currency of China; and
- “\$”, “US\$”, “dollars” or “U.S. dollars” refers to the legal currency of the United States.

Our reporting and functional currency is U.S. dollar. This annual report contains translations of certain foreign currency amounts into U.S. dollars for the convenience of the reader. Unless otherwise stated, all translations of Renminbi into U.S. dollars were made at RMB6.9430 to \$1.00, the noon buying rate on December 30, 2016 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

## FORWARD-LOOKING STATEMENTS

### Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us and our industry. In some cases, these forward-looking statements can be identified by words or phrases such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “ought to”, “plan”, “project”, “potential”, “seek”, “may”, “might”, “can”, “could”, “will”, “would”, “shall”, “should”, “is likely to” and the negative form of these words and other similar expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies;
- our prospects, our business development, the growth of our operations, and our financial condition and results of operations;
- our plans to enhance supplier and customer experience, upgrade our infrastructure and increase our service offerings;
- our expectations regarding demand for and market acceptance of our services;
- competition in our industry in China; and
- fluctuations in general economic and business conditions in China.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations could later be found to be incorrect. Our actual results could be materially different from our expectations. You should thoroughly read this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This annual report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. Our industry might not grow at the rate projected by market data, or at all. Failure of our industry to grow at the projected rate may have a material adverse effect on our business and the market price of our ADSs. Furthermore, if any one or more of the assumptions underlying the market data is later found to be incorrect, actual results could differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### A. Selected Financial Data

The following summary consolidated statements of operations for the years ended December 31, 2014, 2015 and 2016, and summary consolidated balance sheet data as of December 31, 2015 and 2016, have been derived from our audited consolidated financial statements included elsewhere in this annual report. The summary consolidated statements of operations data for the years ended December 31, 2012 and 2013, and consolidated balance sheet data as of December 31, 2012, 2013 and 2014 are derived from our consolidated financial statements not included in this annual report, which have been restated due to the divestment of the discontinued operations in the year of 2015. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. You should read this selected financial data section together with our consolidated financial statements and the related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

#### Selected Consolidated Financial Data

	Year ended December 31,				
	2012 (Note)	2013 (Note)	2014 (Note)	2015	2016
(US\$ in thousands, except share and share related data)					
<b>Summary consolidated statements of operations data:</b>					
<b>Revenues</b>					
Related parties	—	—	—	542	10,078
Third parties	—	—	—	10,935	63,123
Cost of revenues	—	—	—	(13,220)	(72,857)
<b>Gross (loss)/profit</b>	—	—	—	(1,743)	344
<b>Operating expenses:</b>					
Selling and Marketing	—	—	—	(5,360)	(20,405)
General and administrative	(122)	(73)	(4,323)	(12,911)	(7,531)
Impairment of goodwill	—	—	—	(85,935)	—
<b>Total operating expenses</b>	(122)	(73)	(4,323)	(104,206)	(27,936)
<b>Loss from operations</b>	(122)	(73)	(4,323)	(105,949)	(27,592)
Interest income	—	—	—	7	26
Other income, net	—	—	—	46	39
<b>Loss before provision for income taxes</b>	(122)	(73)	(4,323)	(105,896)	(27,527)

Provision for income tax benefits	—	—	—	1,250	2,234
<b>Loss from continuing operations</b>	<u>(122)</u>	<u>(73)</u>	<u>(4,323)</u>	<u>(104,646)</u>	<u>(25,293)</u>

**Discontinued operations:**

Net (loss)/income from discontinued operations	(38,957)	(32,180)	(39,546)	11,076	—
--	----------	----------	----------	--------	---

	Year ended December 31,				
	2012 (Note)	2013 (Note)	2014 (Note)	2015	2016
	(US\$ in thousands, except share and share related data)				
Provision for income tax benefits	69	81	—	—	—
<b>Net (loss)/income from discontinued operations, net of tax</b>	<u>(38,888)</u>	<u>(32,099)</u>	<u>(39,546)</u>	<u>11,076</u>	<u>—</u>
<b>Net loss</b>	<u>(39,010)</u>	<u>(32,172)</u>	<u>(43,869)</u>	<u>(93,570)</u>	<u>(25,293)</u>
Less: Net loss attributable to noncontrolling interests	—	—	(13)	—	—
<b>Net loss attributable to JMU Limited</b>	<u>(39,010)</u>	<u>(32,172)</u>	<u>(43,856)</u>	<u>(93,570)</u>	<u>(25,293)</u>
Deemed dividend on Series A-1 preferred shares	289	1,199	1,445	442	—
Deemed dividend on Series A-2 preferred shares	15,748	34,336	36,947	1,203	—
Deemed dividend on Series B preferred shares	1,544	2,106	2,422	720	—
<b>Net loss attributable to holders of ordinary shares of JMU Limited</b>	<u>(56,591)</u>	<u>(69,813)</u>	<u>(84,670)</u>	<u>(95,935)</u>	<u>(25,293)</u>
<b>Net loss per share:</b>					
Basic-ordinary share	(0.18)	(0.23)	(0.28)	(0.09)	(0.02)
Diluted-ordinary share	(0.18)	(0.23)	(0.28)	(0.09)	(0.02)
<b>Net loss per share from continuing operations</b>					
Basic-ordinary share	(0.00)	(0.00)	(0.03)	(0.10)	(0.02)
Diluted-ordinary share	(0.00)	(0.00)	(0.03)	(0.10)	(0.02)
<b>Net (loss)/income per share from discontinued operations</b>					
Basic-ordinary share	(0.18)	(0.23)	(0.25)	0.01	—
Diluted-ordinary share	(0.18)	(0.23)	(0.25)	0.01	—
<b>Basic-Series A-1 convertible preferred share</b>	0.03	0.10	0.12	0.14	—
<b>Basic-Series A-2 convertible preferred share</b>	0.14	0.28	0.30	0.04	—
<b>Basic-Series B convertible preferred share</b>	0.06	0.07	0.08	0.09	—
<b>Weighted average shares used in calculating net loss per share</b>					
<b>Basic-ordinary share</b>					
Continuing operations	310,188,010	303,886,640	303,886,640	1,001,754,524	1,474,087,060
Discontinued operations	310,188,010	303,886,640	303,886,640	1,001,754,524	—
<b>Diluted-ordinary share</b>					
Continuing operations	310,188,010	303,886,640	303,886,640	1,001,754,524	1,474,087,060
Discontinued operations	310,188,010	303,886,640	303,886,640	1,043,473,265	—
<b>Basic-Series A-1 convertible preferred share</b>	11,151,244	12,202,988	12,202,988	3,242,986	—
<b>Basic-Series A-2 convertible preferred share</b>	110,937,536	122,029,877	122,029,877	32,429,858	—
<b>Basic-Series B convertible preferred share</b>	25,659,708	30,507,471	30,507,471	8,107,465	—

Note: Due to the divestment of our group buying business in 2015, the results of operations from the group buying business is reclassified as discontinued operations and the consolidated statements of operations for the years ended December 31, 2012, 2013 and 2014 have been restated to reflect such reclassification.

	As of December 31,				
	2012	2013	2014	2015	2016
	(US\$ in thousands, except share and share related data)				
<b>Summary consolidated balance sheet data:</b>					
Total current assets	11,753	11,640	10,306	41,083	13,428
Total assets	26,991	23,375	20,343	342,774	274,045
Total current liabilities	67,297	96,425	67,500	24,950	15,227
Total liabilities	67,387	96,425	129,466	38,093	25,648
Total (deficit)/equity	(86,594)	(156,889)	(233,776)	304,681	248,397
Total liabilities, mezzanine equity and deficit	26,991	23,375	20,343	342,774	274,045

**B. Capitalization and indebtedness.**

Not applicable.

**C. Reasons for the offer and use of proceeds.**

Not applicable.

**D. Risk factors.**

## **Risks Relating to Our Business and Industry**

***We have a limited operating history and our business model is subject to uncertainties, which makes it difficult to evaluate our business.***

We disposed of our group buying services in September 2015. Our current business of providing integrated B2B services to food service suppliers and customers only started in late 2014, and we have only owned it since June 2015. The limited history of our current operations makes it difficult for you to evaluate our business, financial performance and prospects, and our historical growth rate might not be indicative of our future performance. We cannot assure you that our current business of providing integrated B2B services to food service suppliers and customers will grow as rapidly as we expect or achieve the critical mass needed for long-term success. Our business model of building a fair business ecosystem for medium and small food service businesses in China and cultivating the traditional offline food service businesses using internet tools is still a new business model in China. Given our limited history, it is difficult to predict if our growth will be sustainable in the future, and the market might evolve in ways that are difficult to anticipate. You should consider our prospects in light of the risks and uncertainties that fast-growing companies in a rapidly evolving market might encounter. These risks and difficulties include, but are not limited to:

- a new and relatively unproven business model;
- our ability to anticipate and adapt to a developing market and industry;
- our need to achieve greater brand recognition;
- our ability to attract sufficient suppliers and customers in the food services industry and generate sufficient net sales or cash flow;
- market acceptance of our business model;
- difficulties in managing rapid growth in personnel and operations;
- high expenditures associated with our geographic expansion, brand promotion and marketing activities; and
- our ability to compete in the market.

Currently we are charging our customers low margin in our direct sales operation, and not charging any commission or service fees for third-party sellers to use our platform. There is no assurance that we can keep the expansion of our B2B business at the current pace after we start to apply higher margins to transactions in our direct sales business and charge service fees for third-party sellers, and our ability to leverage our scale of business to have our platform users to continue using our services with margins and service charges is uncertain.

We cannot be certain that our business strategy will be successful or that we will successfully address these risks. Failure to address any of the risks described above could have adverse effect on our business, financial condition and results of operations.

***We have a history of losses, have spent substantial amounts in operating expenses and could require additional funding in the future.***

Our operations have consumed substantial amounts of cash since our inception. Our current food-industry B2B service incurred net loss in the amount of US\$129.9 million since we acquired it in June 2015, primarily due to an impairment of goodwill of US\$85.9 million in 2015 and because we have not been charging service fees or margins for a majority of all transactions on our platform as part of our strategy to achieve scale of business. We have incurred net losses and experienced negative cash flow from operating activities since our inception. In addition, we had a net current liabilities as of December 31, 2016. As we continue to expand and develop, we expect to continue to incur losses in the near future.



We expect to continue to spend additional amounts in operating expenses in line with our projected growth. We received net proceeds of US\$37.3 million from our initial public offering on April 8, 2015 and the underwriters' exercise of the over-allotment option, after deducting underwriting discounts and commissions and offering expenses payable by us. Additionally, we received US\$15.0 million in a private placement transaction with our co-chairperson Mr. Maodong Xu in September 2015. In January, March and May 2017, we received loans of RMB10.0 million (US\$1.2 million), RMB15 million (US\$1.9 million) and RMB35.0 million (US\$5.1 million), respectively from our co-chairperson and chief executive officer Ms. Xiaoxia Zhu. We believe that our current cash and cash equivalents and anticipated cash flow from operations, together with commitments by Ms. Zhu and our director Ms. Huimin Wang to provide the necessary financial support, will be sufficient to meet our anticipated cash needs for the next 12 months from the date of this annual report. However, we may require additional cash due to changing business conditions or other future developments, including any investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot be certain that additional funding will be available to us on acceptable terms, or at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us when needed, we may have to significantly delay, scale back or discontinue certain portion of our operations. Any of these events could significantly harm our business, financial condition and prospects.

***We may need to recognize significant goodwill impairment losses in connection with past and future acquisitions, which may have a material and adverse effect of our financial results.***

We acquired Join Me Group (HK) Investment Company Limited, or JMU HK, in June 2015 to establish our food-industry B2B services. We may acquire other companies that are complementary to our business in the future. We record goodwill if the purchase price paid in an acquisition exceeds the amount assigned to the fair value of the assets acquired and liability assumed. We are required to test goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired in accordance with ASC 350, "Intangibles – Goodwill and Other." The carrying amount of goodwill amounted to approximately US\$221.3 million as of December 31, 2016 after the annual impairment test, and the impairment loss of US\$85.9 million was recognized for the year ended December 31, 2015. If the carrying amount of goodwill in connection with past or future acquisitions is determined to be further impaired, we will be required to recognize additional goodwill impairment losses and our financial results will be adversely and materially affected.

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

Our current food-industry B2B service has grown substantially since its inception, and we expect continued growth in our business, revenues and number of employees. We plan to further expand our technology platform, enrich value-added services to our clients and increase our product offerings. We also plan to provide supply chain financing services to suppliers and third-party sellers on our platform, and integrate our service platform with key customers' ERP system to optimize their supply chain management and increase their orders on our platform. In addition, as we increase our product offerings, we will need to work with new suppliers and third-party sellers efficiently and establish and maintain mutually beneficial relationships with our existing and new suppliers and third-party sellers. To support our growth, we also plan to continue implementing a variety of new and upgraded managerial, operating, financial and human resources systems, procedures and controls. All these efforts will require significant managerial and financial resources. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

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

The success of our business hinges on our ability to provide superior customer experience, which in turn depends on a variety of factors. These factors include our ability to continue to attract suppliers and third-party sellers that can offer high quality products at competitive prices, source products to respond to customer demands, maintain the quality of products and services provided on our platform, and provide timely and reliable delivery, flexible payment options and superior after-sales service.



We rely completely on third party couriers to deliver products. Although we have implemented quality control policy for selecting third party courier and for monitoring services rendered by them, we cannot assure you that third party couriers can meet our requirement at all times and if products purchased by customers at our platform are not delivered on time or are delivered in a damaged state, customers may refuse to accept products and have less confidence in our services. See “—We rely on service from third parties to deliver our orders, and our third-party sellers use couriers to deliver a significant number of orders for them. If these third party service providers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.” Furthermore, employees of contracted third-party couriers act on our behalf and interact with our customers personally. We maintain cooperation arrangements with a number of third-party couriers to deliver products to our customers and we need to effectively manage these third-party service providers to ensure the quality of customer services. We have in the past received customer complaints from time to time regarding our delivery and return and exchange services. Any failure to provide high-quality delivery services to our customers may negatively impact the purchase experience of our customers, damage our reputation and cause us to lose customers.

Our customer service center in Shanghai provides real-time assistance to our customers during working hours. It had 20 customer service representatives as of December 31, 2016. If our customer service representatives fail to provide satisfactory service, or if waiting times are too long due to the volume of calls from customers at peak times, our brand and customer loyalty may be adversely affected. In addition, any negative publicity or poor feedback regarding our customer service may harm our brand and reputation and in turn cause us to lose customers and market share.

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

We believe that the recognition and reputation of our JMU brand among our customers, suppliers and third-party sellers has contributed to the growth and success of our business. Maintaining and enhancing the recognition and reputation of our brand is critical to our business and competitiveness. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brand. These factors include our ability to:

- provide a compelling online purchase experience to customers;
- maintain the popularity, attractiveness, diversity, quality, safety and authenticity of the products that we or third-party sellers offer;
- maintain the efficiency, reliability and quality of the delivery services;
- maintain or improve customers’ satisfaction with our after-sale services;
- increase brand awareness through marketing and brand promotion activities; and
- preserve our reputation and goodwill in the event of any negative publicity on customer service, internet security, product quality, price or authenticity, or other issues affecting us or other e-commerce businesses in China.

A public perception that low-quality or defective goods are sold on our platform or that we or third-party service providers do not provide satisfactory customer service, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract new customers or retain our current customers. If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our website, products and services, it may be difficult to maintain and grow our customer base, and our business and growth prospects may be materially and adversely affected.

***Our quality control might not always be sufficient to review and ensure the goods and services offered to the customers, which could affect our profits and brand.***

We create, promote and help operate online storefronts in our JMU Mall in collaboration with our suppliers in our direct sales business. Once customers purchase goods from our website, we rely on our suppliers to provide goods to customers. Any customer dissatisfaction resulting from poor quality of goods provided by our suppliers could have an adverse effect on our reputation or revenue. Our business depends on our ability to ensure that high quality goods are provided to customers on a consistent basis. This has placed, and will continue to place, substantial demands on our operational, technological and other resources.



In particular, the food service industry is susceptible to the risk of food-borne illnesses. As with any food service operation we cannot guarantee that our internal controls will be fully effective in preventing all food-borne illnesses, food contamination or food tampering, which may be caused by the products of the third-party food suppliers and distributors or the supply chain of goods such as the food storage or the delivery. Reports in the media or on social media of one or more instances of food-borne illness from the products offered at our platform could negatively affect our sales. This risk exists even if it were later determined that the illness had been wrongly attributed to us.

We cannot assure you that such measures will always be sufficient in discovering and remedying problems with merchandise, some of which are out of our control. Any losses that we may suffer from customers' request for a large amount of refunds or replacement of goods or future liability claims, including the successful assertion against us of one or a series of large claims, it could adversely affect our cash flows, financial conditions and results of operations. In addition, as we expand the types of goods and services for which we offer, the operational cost of quality control will also likely increase, which will have a negative effect on our profits.

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

Our future growth depends on our ability to continue to attract new customers as well as new purchases from existing customers. Our website makes recommendations to customers based on our understanding of the market as well as popularity of products on our platform, and we also send product recommendations regularly to our customers through various means, such as emails, social network media and hardcopy catalogues. Our customers choose to purchase products on our website due in part to the attractive prices that we offer, and they may choose to shop elsewhere if we cannot match the prices offered by other websites or by offline suppliers. If our customers cannot find their desired products on our website at attractive prices, they may lose interest in us and visit our website less frequently or even stop visiting our website altogether, which in turn may materially and adversely affect our business, financial condition and results of operations.

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

The e-commerce industry in China is intensely competitive. We compete for customers, orders, suppliers and third-party sellers. Our current or potential competitors include Alibaba, JD.com and Meicai as well as traditional offline food suppliers See "Item 4. Information on the Company—B. Business Overview—Competition." In addition, new and enhanced technologies may increase the competition in the e-commerce industry and new competitive business models may appear.

Increased competition may reduce our margins, market share and brand recognition, or result in significant losses. When we set prices, we have to consider how competitors have set prices for the same or similar products. When they cut prices or offer additional benefits to compete with us, we may have to lower our own prices or offer additional benefits or risk losing market share, either of which could harm our financial condition and results of operations.

Some of our current or future competitors have or may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technical or marketing resources than we do. Those smaller companies or new entrants may be acquired by, receive investment from or enter into strategic relationships with well-established and well-financed companies or investors which would help enhance their competitive positions. Some of our competitors may be able to secure more favorable terms from suppliers, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies and devote substantially more resources to their website, mobile application and systems development than us. We cannot assure you that we will be able to compete successfully against current or future competitors, and competitive pressures may have a material and adverse effect on our business, financial condition and results of operations.

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

Although our inventory was relatively small as of December 31, 2016, our business model may require us increase our inventory as our business expands and we will need to manage our inventory effectively. We depend on our understanding of the food service industry as well as demand forecasts for various kinds of products to make purchase decisions and to manage our inventory. Demand for products, however, can change significantly between the time inventory is ordered and the date by which we hope to sell it. Demand may be affected by seasonality, new product launches, changes in product cycles, pricing, product defects, changes in customer spending patterns, and other factors, and our customers may not order products in the quantities that we expect. Customers are extremely strict about the expiration date of food products, and poor inventory management might lead to products expiring and becoming unacceptable in the market. In addition, when we begin selling a new product, it may be difficult to establish supplier relationships, determine appropriate product selection, and accurately forecast demand. The acquisition of certain types of inventory may require significant lead time and prepayment and they may not be returnable.

***Substantial future sales of our shares in the public market, or the perception that these sales could occur, could cause our share price to decline.***

Additional sales of our shares in the public market, or the perception that these sales could occur, could cause the market price of our shares to decline. As of December 31, 2016, we had 1,475,645,946 ordinary shares outstanding (excluding 562,724 ordinary shares in the form of ADSs that are reserved for issuance upon the exercise of outstanding options), of which 569,783,423 ordinary shares or approximately 38.6% were held by previous shareholders of JMU HK before our acquisition of JMU HK in 2015. Pursuant to a Registration Rights Agreement we entered into with these former JMU HK shareholders on June 8, 2015, we agreed to provide them with certain registration rights in respect of our ordinary shares held by them, subject to certain limitations. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Registration Rights Agreement.” Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction immediately upon the effectiveness of the registration statement. If part or all of these shares are sold in the public market or if any existing shareholder or shareholders sell a substantial amount of shares, the prevailing market price for our shares could be adversely affected. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

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

We had 253 suppliers for our online direct sales business as of December 31, 2016. Our suppliers include food producers, manufacturers, distributors and resellers. Maintaining strong relationships with these suppliers is important to the growth of our business. In particular, we depend significantly on our ability to procure products from suppliers on favorable pricing terms. We typically enter into framework agreements with suppliers, and these framework agreements do not ensure the availability of products or the continuation of particular pricing practices or payment terms beyond the end of the contractual term. In addition, our agreements with suppliers typically do not restrict the suppliers from selling products to other buyers. We cannot assure you that our current suppliers will continue to sell products to us on commercially acceptable terms, or at all, after the term of the current agreement expires. Even if we maintain good relations with our suppliers, their ability to supply products to us in sufficient quantity and at competitive prices may be adversely affected by economic conditions, labor actions, regulatory or legal decisions, natural disasters or other causes. In the event that we are not able to attract suppliers or third-party sellers that can provide merchandise at favorable prices, our revenues and cost of revenues may be materially and adversely affected. In the event any distributor or reseller does not have authority from the relevant manufacturer to sell certain products to us, such distributor or reseller may cease selling such products to us at any time. If our suppliers cease to provide us with favorable payment terms, our requirements for working capital may increase and our operations may be materially and adversely affected. We will also need to establish new supplier relationships to ensure that we have access to a steady supply of products on favorable commercial terms. If we are unable to develop and maintain good relationships with suppliers that would allow us to obtain a sufficient amount and variety of authentic and quality merchandise on acceptable commercial terms, it may inhibit our ability to offer sufficient products sought by our customers, or to offer these products at competitive prices. Any adverse developments in our relationships with suppliers could materially and adversely affect our business and growth prospects. In addition, as part of our growth strategy, we plan to further expand our product offerings. If we fail to attract new suppliers to sell their products to us due to any reason, our business and growth prospects may be materially and adversely affected.



***If we are unable to conduct our marketing activities cost-effectively, our results of operations and financial condition may be materially and adversely affected.***

Although to a lesser extent compared to what we incurred in our discontinued B2C business, we have incurred a great amount of expenses on a variety of different marketing and brand promotion efforts designed to enhance our brand recognition and increase sales of our products. Our brand promotion and marketing activities may not be well received by customers and may not result in the levels of product sales that we anticipate. We incurred US\$20.4 million of selling and marketing expenses in 2016. Marketing of food products online to food service customers is new and evolving. This further requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with customer preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share, cause our revenues to decline and negatively impact our profitability.

***We rely on service from third parties to deliver our orders, and our third-party sellers use couriers to deliver a significant number of orders for them. If these third party service providers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.***

We maintain cooperation arrangements with a number of third-party couriers to deliver our products to our customers and sometimes suppliers in our direct sales operation deliver products to our customers themselves. Third-party sellers also use their own logistics network or other third-party couriers. Interruptions to or failures in these third parties' delivery services could prevent the timely or proper delivery of products offered at our platform to customers. These interruptions may be due to events that are beyond our control or the control of these delivery companies, such as inclement weather, natural disasters, transportation disruptions or labor unrest. In addition, if our third-party delivery service providers fail to comply with applicable rules and regulations in China, our delivery services may be materially and adversely affected. We may not be able to find alternative delivery companies to provide delivery services in a timely and reliable manner, or at all. Delivery of our products could also be affected or interrupted by the merger, acquisition, insolvency or government shut-down of the delivery companies we engage to make deliveries, especially those local companies with relatively small business scales. If products offered at our platform are not delivered in proper condition or on a timely basis, our business and reputation could suffer.

***Our online marketplace is subject to risks associated with third-party sellers.***

As of December 31, 2016, there were over 16,300 third-party sellers on our online marketplace. We do not exercise control over the storage and delivery of products sold by third-party sellers on our online marketplace. Our third-party sellers use their own or third-party storage facilities and delivery systems to store and deliver their products, which makes it more difficult for us to ensure that our customers get the same high quality service for all products sold on our website. If any third-party seller does not control the quality of the products that it sell on our website, or if it does not deliver the products or delivers them late or delivers products that are materially different from its description of them, or if it sells low quality products on our website, the reputation of our online marketplace and our JMU brand may be materially and adversely affected and we could face claims that we should be held liable for any losses. Moreover, despite our efforts to prevent it, some products sold on our online marketplace may compete with the products we sell directly, which may cannibalize our online direct sales. In addition, the supplier relationships, customer acquisition dynamics and other requirements for our online marketplace may not be the same as those for our online direct sales operations, which may complicate the management of our business. In order for our online marketplace to be successful, we must continue to identify and attract third-party sellers, and we may not be successful in this regard.

***The successful operation of our business depends upon the performance and reliability of the internet and mobile telecommunications infrastructures in China.***

Our business depends on the performance and reliability of the internet and mobile telecommunications infrastructures in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology of China. In addition, the national networks in China are connected to the internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the internet outside of China. We might not have access to alternative networks in the event of disruptions, failures or other problems with China's internet infrastructure. In addition, the internet infrastructure in China might not support the demands associated with continued growth in internet usage.



The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our websites. We have no control over the costs of the services provided by the national telecommunications operators. If the prices that we pay for telecommunications and internet services rise significantly, or if the telecommunication network in China is disrupted or failed, our gross margins could be adversely affected. Technical limitations on internet use could also be developed or implemented. For example, restrictions could be implemented on personal internet use in the workplace in general or access to our website in particular. This could lead to a reduction of customers' activities or a loss of customers altogether, which in turn could have an adverse effect on our financial position and results of operations. In addition, if internet access fees or other charges to internet users increase, our user traffic might decrease, which in turn could significantly decrease our revenues.

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

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

Additionally, we must continue to upgrade and improve our technology platform to support our business growth, and failure to do so could impede our growth. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies. In particular, our systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all. If our existing or future technology platform does not function properly, it could cause system disruptions and slow response times, affecting data transmission, which in turn could materially and adversely affect our business, financial condition and results of operations.

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

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

***If internet search engines' ranking methodologies are modified or our search result page rankings declines, our user traffic could decrease.***

We depend in part on various internet companies in China, such as Baidu, to direct traffic to our website. Our ability to maintain and increase the number of visitors directed to our website is not entirely within our control. Our competitors' search engine optimization efforts could result in their websites receiving a higher search result page ranking than ours, or internet companies could revise their methodologies in an attempt to improve their search results, which could adversely affect the placement of our search result page ranking. If internet companies modify their search algorithms in ways that are detrimental to our customer growth or in ways that make it harder for customers to find our website, or if our competitors' search engine optimization efforts are more successful than ours, our overall growth in user traffic could slow down or decrease, and we could lose existing customers. Our website has experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of visitors directed to our website could harm our business, financial condition and results of operations.

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

A significant challenge to the e-commerce industry is the secure storage of confidential information and its secure transmission over public networks. All of the orders for products we offer are made through our website and our mobile applications. In addition, some transactions are settled through third-party online payment services. We also share certain personal information about our customers with contracted third-party couriers, such as their names, addresses, phone numbers and transaction records. Maintaining complete security for the storage and transmission of confidential information on our technology platform, such as customer names, personal information and billing addresses, is essential to maintaining customer confidence.

We have adopted security policies and measures, including encryption technology, to protect our proprietary data and customer information. However, advances in technology, the expertise of hackers, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining such confidential or private information we hold as a result of our customers' visits to our website and use of our mobile applications. Such individuals or entities obtaining our customers' confidential or private information may further engage in various other illegal activities using such information. In addition, we have limited control or influence over the security policies or measures adopted by third-party providers of online payment services through which some of our customers may elect to make payment for purchases. The contracted third-party couriers we use may also violate their confidentiality obligations and disclose or use information about our customers illegally. Any negative publicity on our website's or mobile applications' safety or privacy protection mechanisms and policies, and any claims asserted against us or fines imposed upon us as a result of actual or perceived failures, could have a material and adverse effect on our public image, reputation, financial condition and results of operations. We have experienced breaches of our information security measures in our B2C business in the past, and we cannot assure you that similar events will not occur in our B2B business in the future. If we give third parties greater access to our technology platform in the future as part of providing more technology services to third-party sellers and others, it may become more challenging for us to ensure the security of our systems. Any compromise of our information security or the information security measures of our contracted third-party couriers or third-party online payment service providers could have a material and adverse effect on our reputation, business, prospects, financial condition and results of operations.

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



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

***We rely on third parties online payment processors, and any disruption to the provision of these services to us could adversely affect our business and results of operations.***

We rely on third parties online payment processors to provide payment processing services, including the processing of credit cards and debit cards. Customers can make purchases through all major online payment systems in China, including Alipay and the online banking systems of most commercial banks in China. Each online payment system provide payment processing services to us and we pay service fees pursuant to our agreements with the payment system operators. Typically the term of each of these agreements is one year, and would be automatically renewed for a term of one year unless otherwise requested by payment system operator or us in writing within one month prior to the expiration date. Our business could be disrupted if any of these online payment system operators becomes unwilling or unable to provide payment processing services to us, and we could incur additional cost as we seek alternative payment processing service providers. Moreover, the third-party online payment processors could fail to obtain, maintain or renew their required qualifications, which could result in disruption in their services to us.

For all the online payment transactions, secured transmission of confidential information, such as customers' bank account numbers, personal information and billing addresses, over public networks is essential to maintain customers' confidence in us. Our current security measures and those of the third parties online payment processors might not be adequate. We must be prepared to increase and enhance our security measures and efforts so that suppliers, third-party sellers and customers have confidence in the reliability of the online payment systems that we use, which will impose additional costs and expenses and might still not guarantee complete security. In addition, we do not have control over the security measures implemented by our third-party payment processors. Security breaches of the online payment systems that we use 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.

In addition, we may in the future increase the variety of payment methods accepted on our website. As we offer new payment options to customers, we could be subject to additional regulations and compliance requirements. We pay payment processing fees and other fees to third-party payment channels, which would increase over time and raise our operating costs and lower profitability.

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

Our success heavily depends upon the continued services of our management. In particular, we rely on the expertise and experience of Mr. Maodong Xu, our co-chairperson, Ms. Xiaoxia Zhu, our co-chairperson and chief executive officer, and our other executive officers. The majority of our senior management joined us in 2015. If they cannot work together effectively or efficiently, our business may be severely disrupted. If one or more of our senior management were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all, and our business, financial condition and results of operations may be materially and adversely affected. If any of our senior management joins a competitor or forms a competing business, we may lose customers, suppliers, know-how and key professionals and staff members. Our senior management has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between our officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

In addition, while we formulate the overall business strategy at our headquarters in Shanghai, we also give latitude to our regional supply chain subsidiaries to manage the daily operations in their respective cities. We cannot assure you that communications between the senior management team and the local management teams will always be effective, or the

executions at the local levels will always have the results that the senior management team expects.

***We have limited insurance coverage and could incur losses resulting from liability claims or business interruptions.***

As the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business insurance products. We do not have any product liability insurance or business interruption insurance. As we continue to expand the offerings by our suppliers and third-party sellers, we could be increasingly exposed to various liability claims related to the products provided by our suppliers and third-party sellers. Any liability claims, business disruption, or natural disaster could result in substantial costs and the diversion of resources, which would have an adverse effect on our business and results of operations.

***We might not be able to adequately protect our intellectual property rights.***

We believe our domain names, trademarks, technology know-how and other intellectual properties enhance our competitive advantages and are important to our success to date and our future prospects. We have been investing resources to develop our own intellectual properties and we take prudent steps to protect our intellectual properties and know-how. But we cannot assure you such steps would be sufficient to prevent the infringement of our intellectual properties. If we fail to adequately protect our intellectual property rights, including our rights in know-how or our trademark, it could have an adverse effect on our operations.

The validity, enforceability and scope of protection available under intellectual property laws with respect to the internet industry in China are uncertain and still evolving. Implementation and enforcement of PRC intellectual property-related laws have historically been deficient and ineffective. Accordingly, protection of intellectual property rights in China might not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we might need to resort to litigation to enforce or defend our intellectual property rights or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and the diversion of resources and management's attention.

Companies in the internet and technology industries are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition and other violations of third parties' rights. From time to time, we could face allegations of trademark, copyright, patent and other intellectual property rights infringement of third parties. Such allegations of intellectual property rights infringements could come from our competitors and there could also be allegations that we are involved in unfair trade practices.

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

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

***We depend on regulatory approvals and licenses to operate in our existing markets and to gain access to new services.***

The internet, telecommunication and food service industries in China are highly regulated by the PRC government and numerous regulatory authorities of the central PRC government are empowered to issue and implement regulations governing various aspects of the internet and food service industries including foreign ownership of and licensing and permit requirements pertaining to companies in the internet and food service industries.

The relevant laws and regulations are relatively new or evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances, it could be difficult to determine what actions or omissions could be deemed to be in violation of applicable laws and regulations. Our VIE is required to obtain and maintain the applicable ICP license for value-added Internet services and the applicable license or permit for selling food, liquor and nutritional supplements through our website. Furthermore, Our VIE could be required to obtain additional licenses. If Our VIE fails to obtain or maintain any of the required licenses or approvals, its continued business operations in the internet and the food service industries could subject it to various penalties, such as confiscation of illegal net sales, fines and the discontinuation or restriction of its operations. Any such disruption in the business operations of Our VIE will materially and adversely affect our business, financial condition and results of operations.

***During the course of the audit of our consolidated financial statements, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. If we fail to establish and maintain effective internal control over financial reporting, our ability to accurately and timely report our financial results in accordance with U.S. GAAP could be materially and adversely affected. In addition, investor confidence in us and the market price of our ADSs may decline significantly as we concluded that our internal control over financial reporting was not effective as of December 31, 2016.***

We are subject to reporting obligations under U.S. securities laws. Our reporting obligations as a public company place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We have limited accounting personnel and other resources with which to address 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, 2016, identified one material weakness, as defined in the U.S. Public Company Accounting Oversight Board Standard AU Section 325, Communications About Control Deficiencies in an Audit of Financial Statements in our internal control over financial reporting. As defined in this AU Section 325, 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 is related to lack of accounting personnel with appropriate knowledge of U.S. GAAP. This material weakness was also identified as material weaknesses in 2014 and 2015. This identified material weaknesses could affect our ability to accurately and timely report our financial results in accordance with U.S. GAAP and to prevent or detect material misstatements of the company’s annual or interim financial statements on a timely basis.

Following the identification of this material weakness, we have begun taking measures and plan to continue to take measures to remedy them. See “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.” However, the implementation of these measures might not fully address this material weakness in our internal control over financial reporting, and we cannot conclude that they have been fully remedied. Our failure to correct this material weakness or our 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.

Our management concluded that our internal control over financial reporting was not effective as of December 31, 2016. This could adversely affect the market price of our ADSs due to a loss of investor confidence in the reliability of our reporting processes.

***The audit reports included in this annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board, and consequently you are deprived of the benefits of such inspection.***

Our independent registered public accounting firms that issue the audit reports included in our annual report filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and firms registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their 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 PRC 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 are 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 auditors' 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 consolidated financial statements.

***If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firms, 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.***

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 US and Chinese law. Specifically, for certain US 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 US 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 Commissioner 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, United States-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 consolidated financial statements, our consolidated financial statements could be determined not to be in compliance with the requirements of the Exchange Act of 1934, as amended. Such a determination could ultimately lead to the delisting of our ordinary shares from the Nasdaq Global Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

Our business could be materially and adversely affected by natural disasters or the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, influenza A (H1N1), Ebola or another epidemic. Any such occurrences could cause severe disruption to our daily operations, including our fulfillment infrastructure and our customer service center, and may even require a temporary closure of our facilities. Earthquakes or other similar disasters affecting Beijing, Shanghai, Guangzhou, or any other city where we have major operations in China could materially and adversely affect our operations due to loss of personnel and damages to property, including our inventory and our technology systems. Our operation could also be severely disrupted if our suppliers, customers or business partners were affected by health epidemics or other natural disasters.

#### **Risks Related to Our Corporate Structure and Dependence on our Contractual Arrangements with our Affiliates**

***If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in internet business, 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 internet content distribution services. Foreign investors are not allowed to own more than 50% of the equity interests in any entity conducting internet content distribution business or other value-added telecom businesses, except e-commerce business, for which there is no upper limit to the shareholding percentage for foreign investors. Additionally any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record in accordance with the Guidance Catalog of Industries for Foreign Investment promulgated in 2015, as amended, and other applicable laws and regulations. We conduct our operations in China principally through contractual arrangements between our wholly-owned PRC subsidiary, Shanghai Zhongming Supply Chain Management Co., Ltd., or Our WFOE, and our consolidated affiliated entity in China, Shanghai Zhongmin Supply Chain Management Co., Ltd., or Our VIE, and its shareholder. Our VIE has twelve subsidiaries within China as of December 31, 2016. Our contractual arrangements with Our VIE and its shareholder enable us to exercise effective control over it and hence treat it as our consolidated affiliated entity and consolidate their results. For a detailed discussion of these contractual arrangements, see “Item 4. Information on the Company—A. History and Development of the Company”.

In the opinion of our PRC counsel, Beijing Dentons Law Offices, LLP, our current ownership structure, the ownership structure of Our WFOE and Our VIE, and the contractual arrangements between Our WFOE, Our VIE, and its shareholder are in compliance with existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Thus, we cannot assure you, however, that we will be able to enforce these contracts. Although we believe we are in compliance with current PRC regulations, we cannot assure you that the PRC government would agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that might 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 are not in compliance with applicable laws and regulations, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, restrict or prohibit us to finance our business and operations in China, shut down our servers or block our website, require us to restructure our operations, impose additional conditions or requirements with which we might not be able to comply, levy fines, confiscate our income or the income of our PRC subsidiary or affiliated PRC entities, or take other regulatory or enforcement actions against us that could be harmful to our business. The imposition of any of these penalties would result in an adverse effect on our ability to conduct our business.

***Substantial uncertainties exist with respect to the enactment timetable and final content of draft PRC Foreign Investment Law 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 proposed 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 is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, final content, interpretation and implementation.

Among other things, the proposed 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 proposed 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, treated as a PRC domestic investor provided that the entity is “controlled” by PRC entities and/or citizens. 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 Council later. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance, 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. Under the proposed Foreign Investment Law, VIEs 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, the VIEs 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.

The provision of value-added telecommunication services, which we conduct through Our VIE, is currently subject to foreign investment restrictions set forth in the Catalogue of Industries for Guiding Foreign Investment, or the Catalogue, issued by the National Development and Reform Commission and the Ministry of Commerce, as amended in March 2015. The draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a VIE structure, although a few possible options were proffered in the draft. Under these options, a company with VIE structures and in the business on the “negative list” at the time of enactment of the new Foreign Investment Law has either the option or obligation to disclose its corporate structure to the authorities, while the authorities, after reviewing the ultimate control structure of the company, may either permit the company to continue its business by maintaining the VIE structure, or require the company to dispose of its businesses and/or VIE structure. Moreover, it is uncertain whether the industries in which Our VIE operates, such as the industry of providing value-added telecommunication services, will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as market entry clearance, to be completed by companies with existing VIE structure like us, we will face uncertainties as to whether such clearance can be timely obtained, or at all. As PRC residents ultimately control more than 50% of the total share capital of our Company, we believe the impact of the Foreign Investment Act, if enacted as currently proposed, on our business and operation will be limited, but there is no assurance that the Chinese government will not interpret the rules differently from us.

***We rely on contractual arrangements with Our VIE in China and its shareholder for our operations, which might not be as effective as direct ownership in providing operational control.***

Since PRC laws restrict foreign equity ownership in companies engaged in internet businesses in China, we rely on contractual arrangements with our consolidated affiliated entity, in which we do not hold shares, and its shareholder to operate our business in China. If we held the shares of Our VIE, we would be able to exercise our rights as a shareholder to effect changes in their respective board of directors, which in turn could effectuate changes at the management level, subject to any applicable fiduciary obligations. However, under the current contractual arrangements, we rely on Our VIE and its shareholder’s performance of their contractual obligations to exercise effective control. In addition, our contractual arrangements are generally effective for the complete period Our VIE exists. In general, neither Our VIE nor its shareholder could terminate the contracts prior to the expiration date. However, the shareholder of Our VIE might not act in the best interests of our company or might not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our consolidated affiliated entity. We can replace the shareholders of Our VIE at any time pursuant to our contractual arrangements with them and their shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operation of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by our VIE or its shareholder to perform their obligations under our contractual arrangements with them could have an adverse effect on our business”. Therefore, these contractual arrangements might not be as effective as direct holding of shares.

***Any failure by Our VIE or its shareholder to perform their obligations under our contractual arrangements with them could have an adverse effect on our business.***

Our VIE and its shareholder could fail to take certain actions required for our business or follow our instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with us, we might have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which might not be effective.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in certain 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, which could make it difficult to exert effective control over our consolidated affiliated entity, and our ability to conduct our business could be adversely affected. Additionally, under PRC law, rulings by arbitrators are final. Parties cannot appeal the arbitration results in courts. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may enforce the arbitration awards only in PRC courts through arbitration award recognition proceedings, which could require additional expenses and delay.

***Contractual arrangements with Our VIE might result in adverse tax consequences to us.***

Under applicable PRC tax laws and regulations, arrangements and transactions among related parties could be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. We could face adverse tax consequences if the PRC tax authorities were to determine that the contractual arrangements between Our WFOE, Our VIE and its shareholder were not entered into on an arm's-length basis and therefore constituted unfavorable transfer pricing arrangements. Unfavorable transfer pricing arrangements could, among other things, result in an upward adjustment on taxation. In addition, the PRC tax authorities could impose late payment fees and other penalties on our consolidated affiliated entity for the adjusted but unpaid taxes. Our results of operations could be adversely affected if our consolidated affiliated entity's tax liabilities increase significantly or if they are required to pay late payment fees or other penalties.

***The ultimate beneficial owners of Our VIE, Ms. Xiaoxia Zhu and Ms. Huimin Wang, could have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business could be adversely affected.***

Our co-chairperson and chief executive officer, Ms. Xiaoxia Zhu, and our director, Ms. Huimin Wang, each hold 50% of the equity interests in Shanghai Zhongmin Investment and Development Group Co., Ltd., or Zhongmin Investment, which in turn holds 100% of equity interests in Our VIE. The interests of Ms. Zhu and Ms. Wang as the ultimate beneficial owner of Our VIE could differ from the interests of our company as a whole, notwithstanding both Ms. Zhu and Ms. Wang are our principal shareholders. We cannot assure you that when conflicts of interest arise, Ms. Zhu and Ms. Wang will act in the best interests of our company or that conflicts of interests will always be resolved in our favor. In addition, Ms. Zhu and Ms. Wang could cause Zhongmin Investment and Our VIE to breach or refuse to renew the existing contractual arrangements with us. Currently, we do not have existing arrangements to address potential conflicts of interest Ms. Zhu and Ms. Wang could encounter in their capacity as beneficial owners of Our VIE. We rely on Ms. Zhu and Ms. Wang to comply with the laws of China, which protect contracts, including the contractual arrangements that Our VIE and its shareholder have entered into with us, provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains. We also rely on Ms. Zhu and Ms. Wang to abide by the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and Ms. Zhu and Ms. Wang, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

***We rely principally on dividends and other distributions on equity paid by our PRC and Hong Kong subsidiaries to fund any cash and financing requirements we might have. Any limitation on the ability of our PRC and Hong Kong subsidiaries to pay dividends to us could have an adverse effect on our ability to conduct our business.***

We are a holding company, and we rely principally on dividends and other distributions on equity paid by Our WFOE, and our wholly-owned Hong Kong subsidiary, JMU HK, which is the direct holding company of Our WFOE, 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 might incur. If Our WFOE or JMU HK, as the case may be, incurs debt on their own behalf in the future, the instruments governing the debt could restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities could require us to adjust our taxable income under the contractual arrangements Our WFOE currently has in place with our consolidated affiliated entity in a manner that would adversely affect its ability to pay dividends and other distributions to us.

Under PRC laws and regulations, Our WFOE, as a wholly foreign-owned enterprise in China, can pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise such as Our WFOE is required to set aside at least 10% of its 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 its registered capital. At its discretion, it may allocate a portion of its after-tax profits based on PRC accounting standards to other funds. These statutory reserve funds and other funds are not distributable as cash dividends. As of December 31, 2016, the paid-in registered capital of Our WFOE was US\$26.6 million. Any limitation on the ability of Our WFOE or JMU HK to pay dividends or make other distributions to us could 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 could limit our use of the proceeds we receive from our initial public offering to fund our expansion or operations.***

In utilizing the proceeds we receive from financing activities, we could (i) make additional capital contributions to our PRC subsidiary, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiary or consolidated affiliated entity, or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to Our WFOE or to any newly established PRC subsidiaries, must be approved by the PRC Ministry of Commerce or its local counterparts;
- loans by us to Our WFOE, which is a foreign-invested enterprise, to finance its activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local branches; and
- medium and long-term loans by us to Our VIE, which is a domestic PRC entity, must be approved by the National Development and Reform Commission and must also be registered with SAFE or its local branches.

On August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into Renminbi by restricting how the converted Renminbi may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such Renminbi capital cannot be changed without SAFE's approval, and such Renminbi capital cannot in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Furthermore, SAFE promulgated Circular 59 in November 2010, which tightens the regulation over settlement of net proceeds from overseas offerings, such as our initial public offering, and requires, among other things, the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents or otherwise approved by our board. Violations of these SAFE regulations could result in severe monetary or

other penalties, including confiscation of earnings derived from such violation activities, a fine of up to 30% of the Renminbi funds converted from the foreign invested funds or in the case of a severe violation, a fine ranging from 30% to 100% of the Renminbi funds converted from the foreign-invested funds.

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 obtain these government registrations or approvals on a timely basis, if at all, with respect to our future plans to use the U.S. dollar proceeds we receive from our initial public offering for our expansion and operations in China. If we fail to receive such registrations or approvals, our ability to use the proceeds we receive from financing activities and to capitalize our PRC operations could be negatively affected, which could adversely affect our liquidity and ability to fund and expand our business.

***We could lose the ability to use and enjoy assets held by Our VIE that are important to the operation of our business if such entities go bankrupt or become subject to dissolution or liquidation proceedings.***

As part of our contractual arrangements with Our VIE, such entity holds certain assets that is important to the operation of our business. If Our VIE goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we might not be able to continue some or all of our business activities, which could adversely affect our business, financial condition and results of operations. If Our VIE undergoes voluntary or involuntary liquidation proceedings, the unrelated third-party creditors could claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could adversely affect our business, financial condition and results of operations.

### **Risks Relating to Doing Business in China**

***We could be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet businesses and companies.***

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

- there are uncertainties relating to the regulation of internet businesses in China, including evolving licensing practices. This means that permits, licenses or operations at some of our companies could be subject to challenge, or we could fail to obtain permits or licenses that would be deemed necessary for our operations or we might not be able to obtain or renew certain permits or licenses. The major permits and licenses that could be involved include, without limitation, the ICP license. If we fail to maintain any of these required licenses or approvals, we could be subject to various penalties, including fines and the discontinuation of or restrictions on our operations. Any such disruption in our business operations could have an adverse effect on our results of operations;
- new laws and regulations could be promulgated that will regulate internet activities, including online services. If these new laws and regulations are promulgated, additional licenses could be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties; and
- we only have contractual control over our operating website, *www.ccjoin.com*. We do not own the website due to the restriction of foreign investment in businesses providing value-added telecom services in China, including internet content distribution services. This could significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

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 required under any new laws or regulations. There are also risks that we could be found to violate the existing or future laws and regulations given the uncertainty and complexity of China's regulation of internet businesses.

On July 13, 2006, the Ministry of Industry and Information Technology, or the MIIT, the successor of the Ministry of Information Industry, issued the Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecom Services. This notice prohibits domestic telecom services providers from leasing, transferring or selling telecom 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 telecom business in China. According to this notice, either the holder of a value-added telecom business operating license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecom 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 VIE owns the related domain names, holds the ICP licenses necessary for the operation of our www.ccjoin.com website, and has applied related trademarks with the Trademark Office of the State Administration for Industry and Commerce. Pursuant to the Administrative Measures on Internet Information Services effective since September 25, 2000, commercial internet information services are subject to licensing system. In case the operator provides commercial internet information services without obtaining an operation license or the services provided by the operator exceed the scope of the services as permitted by the operation license, the relevant telecom administrative agency could order to have such act corrected within a specified period. Where there is illegal income, the illegal income could be confiscated and a fine of no less than three times but no more than five times the value of the illegal income would be imposed; where there is no illegal income or the illegal income does not exceed RMB50,000, a fine of no less than RMB100,000 but no more than RMB1,000,000 could be imposed; in the event of a serious case, the operator shall be ordered to close down its website.

***Uncertainties with respect to the PRC legal system could have an adverse effect on us.***

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions in a civil law system may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always consistent, and enforcement of these laws, regulations and rules involves uncertainties, which could limit the available legal protections.

In addition, the PRC administrative and court authorities have significant discretion in interpreting and implementing or enforcing statutory rules and contractual terms, and it could be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we could enjoy in the PRC than under some more developed legal systems. These uncertainties could affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and could affect our ability to enforce our contractual or tort rights. Such uncertainties could therefore increase our operating costs and expenses as well as adversely affect our business and results of operations.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and could have a retroactive effect. As a result, we might not be aware of our violation of any of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could adversely affect our business and impede our ability to continue our operations.

***Regulation and censorship of information distribution over the internet in China could adversely affect our business, and we could be liable for information displayed on, retrieved from or linked to our website.***

China has enacted laws and regulations governing internet access and the distribution of products, services, news, information and other content through the internet. In the past, the PRC government has prohibited the distribution of information through the internet that it deems to be in violation of PRC laws and regulations. If any of our internet content were deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could adversely affect our business, financial condition and results of operations. We could also be subject to potential liability for any unlawful actions of users of our website or for content we distribute that is deemed inappropriate. It could be difficult to determine the type of content that could result in liability to us, and if we are found to be liable, we could be prevented from operating our website in China.

***Regulation of food services in China could adversely affect our business, and we could be liable for food business operations.***

China has enacted laws and regulations governing the sale of food. In accordance with the Food Safety Law of the People's Republic of China, the Administrative Measures for the Licensing of Food Business Operations, the Implementing Regulations for the Food Safety Law of the People's Republic of China and other relevant laws and regulations, business operators of food services shall carry out production and operation in accordance with the laws, regulations and food safety standards, ensure food safety, uphold integrity and self-discipline, be accountable to the public and society at large, accept public supervision and assume social responsibility. We have already obtained a Food Circulation License, a Retailing License for Liquor and a Wholesale License for Liquor. We believe we now possess all necessary licenses and permits to sell all categories of food products on our website. However, it is possible that the PRC government will require us to apply for additional licenses for certain specific categories of products. We can not assure you that we can obtain any such additional permits from the PRC government at reasonable cost, or at all. Additionally, if any food product we sold is found unsafe by the PRC government, we will be punished under the relevant laws and regulations, and we may have to cease the sale of the whole category that contains the unsafe food product.

***Governmental control of currency conversion could affect the value of your investment.***

The PRC government imposes controls on the convertibility between the Renminbi and foreign currencies despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Substantially all of our revenues are denominated in Renminbi. Under our current holding company corporate structure, our income is primarily derived from dividend payments from our PRC subsidiary. Shortages in the availability of foreign currency or other restrictions could restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. 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 currency to satisfy our currency demands, we might not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***Fluctuations in exchange rates of the Renminbi could affect our reported results of operations.***

Substantially all of our revenues and expenses 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.



As we rely on dividends and other fees paid to us by our subsidiary and affiliated consolidated entities in China, any significant revaluation of the Renminbi could adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we received from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, since our functional and reporting currency is the U.S. dollar while the functional currency of our subsidiary and consolidated affiliated entities in China is Renminbi, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would have a positive or negative effect on our reported financial results, which might not reflect any underlying change in our business, financial condition or results of operations.

***Our operations could be adversely affected by changes in China’s political, economic and social conditions.***

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects could 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 emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China’s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures might benefit the overall Chinese economy, but could have a negative effect on us. For example, our financial condition and results of operations could be adversely affected by government control over capital investments or changes in tax regulations. In the past the PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures could cause decreased economic activity in China, which could adversely affect our business and operating results. Any significant increase in China’s inflation rate could increase our costs and have an adverse effect on our operating margins. In addition, any sudden changes to China’s political system or the occurrence of widespread social unrest could have negative effects on our business and results of operations.

***Under the PRC enterprise income tax law, we could be classified as a “resident enterprise” of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.***

Under the PRC Enterprise Income Tax Law and the 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 is subject to PRC 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 only detailed guidance currently available regarding the definition of “de facto management body” as well as the determination of the tax residence of offshore incorporated enterprises whose primary controlling shareholder is a PRC company or a PRC corporate group, and such enterprises’ tax administrations are set forth in two notices, the Notice On Issues Relating to Determination of Chinese-Controlled Offshore Enterprise as PRC Resident Enterprises by applying the “De Facto Management Body”, or Circular 82, and the Administrative Measures of Enterprise Income of Chinese Controlled Offshore Incorporated Resident Enterprise (Trial), or Circular 45, issued by the PRC State Administration of Taxation, or the Circulars. The Circulars provide that a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group would be classified as a “resident enterprise” with its “de facto management body” located within China if all of the following requirements are satisfied: (i) the enterprise’s day-to-day operations management is primarily exercised in China, (ii) decisions relating to the enterprise’s financial

and human resource matters are made or subject to approval by organizations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, board and shareholders' meeting minutes are located or maintained in China, and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. If all of these criteria are met, the relevant offshore enterprise controlled by PRC enterprises or PRC enterprise groups would be deemed to have its "de facto management body" in China and therefore be deemed a PRC resident enterprise. The Circulars made clarification in the areas of resident status determination, post-determination administration, as well as the exercise of competent tax authorities' procedures. The Circulars also specify that when provided with a copy of PRC tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, a payer of PRC-sourced dividends, interest, royalties, etc. should not withhold 10% income tax on such payments to such Chinese controlled offshore incorporated enterprise. Although the Circulars apply only to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals such as us, the determination criteria and administration clarification made in the Circulars reflect the PRC State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented. There is no assurance that the PRC State Administration of Taxation will not apply the same or similar criteria as stated in the Circulars to determine whether the "de facto management body" of an offshore incorporated enterprise controlled by PRC individuals (like us) is located within the PRC in the future. If the PRC authorities were to determine that we should be treated as a PRC resident enterprise for the purpose of PRC enterprise income tax, a 25% enterprise income tax on our global income could significantly increase our tax burden and adversely affect our financial condition and results of operations.

Pursuant to the Enterprise Income Tax Law and the Implementation Rules, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors will be subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a reduced withholding arrangement. We are a Cayman Islands holding company and substantially all of our income comes from dividends from our PRC subsidiary through our Hong Kong holding company. To the extent these dividends are subject to withholding tax, the amount of funds available to us to meet our cash requirements, including the payment of dividends to our shareholders and ADS holders, will be reduced.

The Implementation Rules provide that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how "domicile" might be interpreted under the Enterprise Income Tax Law, and it could be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered to be a PRC resident enterprise for tax purposes, any dividends we pay to our overseas corporate shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs could be regarded as PRC-sourced income and as a result subject to PRC withholding tax at a rate of up to 10%, subject to the provisions of any applicable tax treaty. If dividends we pay to our overseas individual shareholders or ADS holders, or gains realized by such holders from the transfer of our shares or ADSs, are treated as China-sourced income, the withholding rate would be 20%, subject to the provisions of any applicable tax treaty.

If we are required under the Enterprise Income Tax Law to withhold PRC income tax on any dividends paid to our non-PRC shareholders and ADS holders or if gains from dispositions of our shares or ADSs are subject to PRC tax, your investment in our ADSs or ordinary shares could be adversely affected.

Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Treaties in October 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the "beneficial owner" of an item of income under China's tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company cannot be regarded as a beneficial owner and, therefore, cannot qualify for treaty benefits. The conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We cannot assure you that any dividends distributed by us to our non-PRC shareholders and ADS holders whose jurisdiction of incorporation has a tax treaty with China providing for avoidance of double taxation will be entitled to the benefits under the relevant withholding arrangement.

***A failure by our shareholders or beneficial owners who are PRC citizens or residents in China to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition.***

The State Administration of Foreign Exchange, or SAFE, issued the Circular Relating to Foreign Exchange Administration of Offshore Investment, Financing and Return Investment by Domestic Residents Utilizing Special Purpose Vehicles, or SAFE Circular 37, that was promulgated and become effective on July 14, 2014. It requires a PRC natural person or a PRC company, or a PRC Resident, to file a “Registration Form of Overseas Investments Contributed by PRC Resident” and register with the local SAFE branch before it contributes assets or equity interests in an overseas special purpose vehicle, or SPV, that is directly established and controlled by PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC resident is also required to register with the local SAFE branch timely for any major change in respect of SPV, including, among other things, any major change of SPV’s PRC Resident shareholder, name of the SPV, term of operation or any increase or reduction of the SPV’s registered capital, share transfer or swap, and merger or division. Failure to comply with the registration procedures of Circular 37 could result in the penalties including the imposition of restrictions on the ability of SPV’s PRC subsidiaries to dividends to its overseas parent company.

It remains unclear how this regulation and any future related legislation will be interpreted, amended and implemented by the relevant PRC government authorities. As of December 31, 2016, to the best of our knowledge, most of our PRC Resident shareholders with offshore investments had not registered their offshore investments with SAFE according to the predecessor regulation of Circular 37, namely the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75, which was replaced by the SAFE Circular 37 but still effective when the relevant PRC shareholders made their investments. If PRC government determined that our PRC Resident shareholders are required to make the registration regarding their offshore investment under Circular 37, both they and us may be subject to fines by PRC government.

We are committed to complying, and to ensuring that our shareholders and beneficial owners who are PRC citizens or residents comply with SAFE Circular 37 requirements. The rest of our PRC citizen or resident beneficial owners are also applying for registrations under SAFE Circular 37 with the relevant local counterpart of SAFE. However, we might not be fully informed of the identities of all our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with SAFE Circular 37 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents have complied with, or will in the future make or obtain the necessary any applicable registrations or approvals as required by, SAFE Circular 37 or other related regulations. Failure by such shareholders or beneficial owners to comply with SAFE Circular 37, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. Failure by us to amend the foreign exchange registrations in compliance with SAFE Circular 37 could subject us to fines or legal sanctions restrict our overseas or cross-border ownership structure, which could adversely affect our business and prospects. See “—We rely principally on dividends and other distributions on equity paid by our PRC and Hong Kong subsidiaries to fund any cash and financing requirements we might have. Any limitation on the ability of our PRC and Hong Kong subsidiaries to pay dividends to us could have an adverse effect on our ability to conduct our business”.

***A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens could subject such employees or us to fines and legal or administrative sanctions.***

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Rules, promulgated by SAFE on January 5, 2007, a relevant guidance issued by SAFE in March 2007 and Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rules, on February 15, 2012 that replaces the guidance issued in March 2007, PRC citizens who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or other qualified PRC agents selected by such PRC subsidiary, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. For participants who had already participated in an employee share option or share incentive plan before the date of the guidance, the guidance require their PRC employers or PRC agents to complete the relevant formalities within three months of the date of the guidance. We and our PRC citizen employees who have been granted

share options, or PRC option holders, are subject to these rules. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders could be subject to fines and legal or administrative sanctions.

***The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.***

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 Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued in December 2009, or SAT Circular 698, and the Notice on Certain Corporate Income Tax Matters Related to Indirect Transfer of Properties by Non-PRC Resident Enterprises issued in February 2015, 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. Further, SAT Circular 7 replaces the compulsory reporting requirement in SAT Circular 698 with a voluntary reporting regime, and the criteria set forth in Circular 698 for indirect transfer reporting have been abolished. 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. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions. For the transfer of shares in our company by investors who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the rules and notices. As a result, we may be required to expend valuable resources to comply with these rules and notices or to request the relevant transferors from whom we purchase taxable assets to comply, or to establish that our company and other non-resident enterprises in our group should not be taxed under these rules and notices, which may have a material adverse effect on our financial condition and results of operations.

We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. We acquired JMU HK in June 2015 and divested our B2C business in September 2015, and we may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of these transactions under Circular 698 and SAT Circular 7, our income tax expenses associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

***PRC laws and regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

PRC laws and regulations, such as the 2006 M&A Rules, the Anti-Monopoly Law promulgated by the PRC National People's Congress in 2007 and the Notice on the Establishment of the Security Review System in Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the State Council, or the Security Review Rule, establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors and companies more time-consuming and complex, including requirements in some instances that various governmental authorities be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. For example, on February 3, 2011, the State Council promulgated the Security Review Rule, which provides, among other things, that merger and acquisition transactions by foreign investors of PRC enterprises in sensitive sectors or industries, such as internet information service industry, which our operations fall within, could be subject to security review. Consequently, any such transaction could be blocked due to their effect on the national defense security, national economic stability, basic social life order, or capacity of indigenous research and development of key technologies. On August 25, 2011, the Ministry of Commerce promulgated the Regulations on Implementing the Security Review System in Mergers and Acquisition of Domestic Enterprises by Foreign Investors, which, among other things, set forth detailed provisions on how the security review of relevant transactions would be conducted, and provide for that foreign investors could not for any reason evade the security review process through entrustment, phased-in investment, leasing, loans and control agreement, and overseas transactions. We could expand our business in part by acquiring complementary businesses. Complying with the requirements of the relevant PRC laws and regulations to complete such transactions could be time-consuming, and any required approval processes could delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***Increases in labor costs in the PRC may adversely affect our business and results of operations.***

The economy of China has been experiencing increases in inflation and labor costs in recent years. As a result, the average wages in the PRC are expected to continue to grow. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and those employers who fail to make adequate payments could be subject to late payment fees, fines and/or other penalties. If the relevant PRC authorities determine that we should make supplemental social insurance and housing fund contributions and that we are subject to fines and legal sanctions, our business, financial condition and results of operations could be adversely affected. We expect that our labor costs, including wages and employee benefits, would continue to increase. Unless we are able to pass on these increased labor costs to our customers by increasing the prices of our products and services, our financial condition and results of operations could be adversely affected.

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

We are subject to numerous PRC laws and regulations that govern e-commerce business, such as the Consumer Protection Law. If these regulations were to change or if we or our merchant clients were to violate them, the costs of certain products or services could increase, or we could be subject to fines or penalties or suffer reputational harm, which could reduce demand for the products or services offered on our website and adversely affect our business and results of operations. For example, the recently amended Consumer Protection Law, which became effective in March 2014, further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially for businesses that operate on the internet. We do not maintain product liability insurance for products and services transacted on our platform, and our rights of indemnity from the vendors and service providers might not adequately cover us for any liability

we incur. Even unsuccessful claims could result in the expenditure of funds and management time and resources and could reduce our net income and profitability. Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We could be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which could increase our costs and limit our ability to operate our business.

## **Risks Relating to Our ADSs**

***The trading price of our ADSs could be volatile, which would result in substantial losses to investors.***

Since our ADSs began trading on the Nasdaq Global Market on April 8, 2015, through May 19, 2017, the closing price as reported by Nasdaq has ranged from a high of \$11.99 to a low of \$1.82 per ADSs. The trading price of our ADSs could be volatile and could fluctuate widely in response to factors relating to our business as well as external factors beyond our control. Factors such as variations in our financial results, announcements of new business initiatives by us or by our competitors, recruitment or departure of key personnel, changes in the estimates of our financial results or changes in the recommendations of any securities analysts electing to follow our securities or the securities of our competitors could cause the market price for our ADSs to change substantially. At the same time, securities markets could from time to time experience significant price and volume fluctuations that are not related to the operating performance of particular companies, as they did for example in late 2008 and early 2009. These market fluctuations could also have an adverse effect on the market price of our ordinary shares.

The performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States could affect the volatility in the price of and trading volumes for our ADSs. In recent years, a number of PRC companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines in connection with their initial public offerings. The trading performances of these PRC companies' securities at the time of or after their offerings could affect the overall investor sentiment towards PRC companies listed in the United States and consequently could affect the trading performance of our ADSs. These broad market and industry factors could significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance. Any of these factors could result in large and sudden changes in the trading volume and price for our ADSs.

***We are an emerging growth company and cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our ADSs less attractive to investors.***

We are an “emerging growth company” under the JOBS Act, and may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards.

We have not yet opted out of these exemptions available to the emerging growth companies. This decision would allow us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies or otherwise become applicable to us. As a result, our consolidated financial statements might not be comparable to public companies or other emerging growth companies that have opted out of this provision. We cannot predict if investors will find our ADSs less attractive because we will rely on these exemptions. If some investors find our ADSs less attractive as a result, our stock price could be lower than it otherwise would be, there could be a less active trading market for our ADSs and our stock price could be more volatile.

We will remain an emerging growth company until the earliest of (i) the last day of our fiscal year during which we have total annual gross revenues of at least \$1.07 billion; (ii) the last day of our fiscal year ending after the fifth anniversary of the completion of our initial public offering; (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which we are deemed to be a “large accelerated filer” under the Exchange Act.

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

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

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

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

***As a foreign private issuer, we are permitted to, and we plan to, rely on exemptions from certain NASDAQ corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This might afford less protection to holders of our ordinary shares and ADSs.***

Section 5605(b)(1) of the Nasdaq Listing Rules requires listed companies to have, among other things, a majority of its board members to be independent, and Section 5605(d) and 5605(e) require listed companies to have independent director oversight of executive compensation and nomination of directors. As a foreign private issuer, however, we are permitted to, and we plan to follow home country practice in lieu of the above requirements. The corporate governance practice in our home country, the Cayman Islands, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee. We have informed NASDAQ that we will follow home country practice in place of all of the requirements of Rule 5600 other than those rules which we are required to follow pursuant to the provisions of Rule 5615(a)(3).

- Rule 5605(b), pursuant to which (i) a majority of the board of directors must be comprised of Independent Directors, and (ii) the Independent Directors must have regularly scheduled meetings at which only Independent Directors are present.
- Rule 5605(c) (other than those parts as to which the home country exemption is not applicable), pursuant to which each company must have, and certify that it has and will continue to have, an audit committee of at least three members, each of whom must meet criteria set forth in Rule 5605(c)(2) (A).
- Rule 5605(d), pursuant to which each company must (i) certify that it has adopted a formal written compensation committee charter and that the compensation committee will review and reassess the adequacy of the formal written charter on an annual basis, and (ii) have a compensation committee of at least two members, each of whom must be an Independent Director.
- Rule 5605(e), pursuant to which director nominees must be selected, or recommended for the Board's selection, either by Independent Directors constituting a majority of the Board's Independent Directors in a vote in which only Independent Directors participate, or a nominations committee comprised solely of Independent Directors.

- Rule 5610, pursuant to which each company shall adopt a code of conduct applicable to all directors, officers and employees.
- Rule 5620(a), pursuant to which each company listing common stock or voting preferred stock, or their equivalents, shall hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end.
- Rule 5620(b), pursuant to which each company shall solicit proxies and provide proxy statements for all meetings of shareholders and shall provide copies of such proxy solicitation to Nasdaq.
- Rule 5620(c), pursuant to which each company that is not a limited partnership shall provide for a quorum as specified in its by-laws for any meeting of the holders of common stock; provided, however, that in no case shall such quorum be less than 33<sup>1</sup>/<sub>3</sub>% of the outstanding shares of the company's common voting stock.
- Rule 5630, pursuant to which each company that is not a limited partnership shall conduct an appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis by the company's audit committee or another independent body of the board of directors.
- Rule 5635(a), pursuant to which shareholder approval is required in certain circumstances prior to an issuance of securities in connection with the acquisition of the stock or assets of another company.
- Rule 5635(b), pursuant to which shareholder approval is required prior to the issuance of securities when the issuance or potential issuance will result in a change of control of the company.
- Rule 5635(c), pursuant to which shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, subject to certain exceptions.
- Rule 5635(d), pursuant to which shareholder approval is required prior to the issuance of securities in connection with a transaction other than a public offering involving:
  - o the sale, issuance or potential issuance by the company of common stock (or securities convertible into or exercisable for common stock) at a price less than the greater of book or market value which together with sales by officers, directors or Substantial Shareholders of the company equals 20% or more of common stock or 20% or more of the voting power outstanding before the issuance; or
  - o the sale, issuance or potential issuance by the company of common stock (or securities convertible into or exercisable common stock) equal to 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance for less than the greater of book or market value of the stock.

***Our corporate actions are substantially influenced by Mr. Maodong Xu, our founder and co-chairperson, Ms. Xiaoxia Zhu, our chief executive officer and co-chairperson and Ms. Huimin Wang, our director, whose interests might differ from yours and our company as a whole.***

As of March 31, 2017, Mr. Maodong Xu, Ms. Xiaoxia Zhu and Ms. Huimin Wang beneficially owned 21.8%, 16.6% and 19.7% of our total outstanding shares, respectively. If these shareholders choose to act in concert, they will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership could also discourage, delay or prevent a change of control transactions involving our company, which would deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions could be taken even if they are opposed by our other shareholders, including those who purchased ADSs in our initial public offering or on the open market.



***Anti-takeover provisions in our charter documents could discourage a third party from acquiring us, which could limit our shareholders' opportunities to sell their shares at a premium.***

Our third amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change-of-control transactions. For example, our board of directors will have the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including, without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers, full or limited or no voting powers, and liquidation preferences, any or all of which could be greater than the rights associated with our ordinary shares. Preferred shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues preferred shares, the market price of our ordinary shares could fall and the voting and other rights of the holders of our ordinary shares could be adversely affected. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

***You might not receive certain distributions we make on our ordinary shares or other deposited securities if the depositary decides not to make such distributions to you.***

The depositary 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 depositary may, at its discretion, decide that it is not lawful or reasonably practicable to make a distribution available to any holders of ADSs. For example, the depositary could determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions could be less than the cost of mailing them. In these cases, the depositary could decide not to distribute such property and you will not receive such distribution.

***We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you could have less protection of your shareholder rights than you would under U.S. law.***

Our corporate affairs are governed by our third amended and restated memorandum and articles of association, the Cayman Islands Companies Law (2016 Revision), as amended, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by noncontrolling shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

There is uncertainty with regard to Cayman Islands law related to whether a judgment obtained from the U.S. courts under civil liability provisions of U.S. securities laws will be determined by the courts of the Cayman Islands as penal or punitive in nature. If such a determination is made, the courts of the Cayman Islands will not recognize or enforce the judgment against a Cayman Islands company, such as our company. As the courts of the Cayman Islands have yet to rule on making such a determination in relation to judgments obtained from U.S. courts under civil liability provisions of U.S. securities laws, it is uncertain whether such judgments would be enforceable in the Cayman Islands. Maples and Calder (Hong Kong) LLP has advised us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States, 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:



- is given by a foreign court of competent jurisdiction;
- imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given;
- is final;
- is not in respect of taxes, a fine or a penalty; and
- 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.

You should also read “Item 10. Additional Information—A. Share Capital—Ordinary Shares—Differences in Corporate Law” for some of the differences between the corporate and securities laws in the Cayman Islands and the United States.

***Your ability to protect your rights as shareholders through the U.S. federal courts could be limited because we are incorporated under Cayman Islands law.***

Cayman Islands companies might not have standing to initiate a derivative action in a federal court of the United States. As a result, your ability to protect your interests if you are harmed in a manner that would otherwise enable you to sue in a United States federal court could be limited to direct shareholder lawsuits.

***You will have limited ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, because we are incorporated in the Cayman Islands, because we conduct a majority of our operations in China and because all of our directors and officers reside outside the United States.***

We are incorporated in the Cayman Islands and conduct our operations exclusively in China. All of our assets are located outside the United States. All of our officers and directors reside outside the United States and a substantial portion of the assets of those persons are located outside of the United States. As a result, it could be difficult or impossible for you 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 applicable 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 could render you unable to enforce a judgment against our assets or the assets of our directors and officers. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state, and it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or China against us or such persons predicated upon the securities laws of the United States or any state.

Shareholders of Cayman Islands exempted companies such as ourselves have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of these companies. Our directors have discretion under Cayman Islands law to determine whether or not, and under what conditions, our corporate records could be inspected by our shareholders, but are not obliged to make them available to our shareholders. This could make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

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

***The voting rights of holders of ADSs are limited in several significant ways by the terms of the deposit agreement.***

Holders of our ADSs will only be able to exercise their voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. Upon receipt of voting instructions from a holder of ADSs in the manner set forth in the deposit agreement, the depository will endeavor to vote the underlying ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you cancel your ADSs and withdraw the underlying shares and follow the requisite steps to be recognized as a holder of shares entitled to vote such shares. Under our third amended and restated memorandum and articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is 10 clear days. When a general meeting is convened, you might not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depository might not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depository to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the shares representing your ADSs. Furthermore, the depository will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you might not be able to exercise your right to vote and you could lack recourse if your ordinary shares are not voted as you requested.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the ordinary shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depository or its nominee as their representative to exercise the voting rights attaching to the ordinary shares represented by the ADSs. You might not receive voting materials in time to instruct the depository to vote, 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. The deposit agreement provides that if the depository does not timely receive valid voting instructions from the ADS holders, then the depository must, with certain limited exceptions, give a discretionary proxy to a person designated by us to vote such shares. Furthermore, as a party to the deposit agreement, you waive your right to trial by jury in any legal proceedings arising out of the deposit agreement or the ADRs against us and/or the depository.

***You might not receive distributions on our ordinary shares or any value for them if it is unlawful or impractical for us to make them available to you.***

The depository of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs 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 our ordinary shares your ADSs represent. However, the depository is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depository is not responsible for making a distribution available to any holders of ADSs, if any government approval or registration is required for such distribution. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you might not receive the distributions we make on our ordinary shares or any value for them if it is unlawful or impractical for us to make them available to you. These restrictions could have an adverse effect on the value of your ADSs.

***You might be subject to limitations on the transfer of your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository could close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository could close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository could also close its books in emergencies, and on weekends and public holidays. The depository could refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depository are closed, or at any time if we think or the depository thinks it is necessary or advisable to do so in connection with the performance of its duty under the deposit agreement, including due to any requirement of law or any government or governmental body, or under any provision of the deposit agreement.



***Compliance with rules and requirements applicable to public companies could cause us to incur increased costs, which could negatively affect our results of operations.***

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and Nasdaq Global Market, has required changes in corporate governance practices of public companies. We expect these rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements could be especially difficult and costly for us because we might have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public company reporting requirements, and such personnel could command higher salaries relative to what similarly experienced personnel would command in the United States. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we might need to rely more on outside legal, accounting and financial experts, which could be very costly. In addition, we will incur additional costs associated with our public company reporting requirements. We are evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we might incur or the timing of such costs.

***We could be a passive foreign investment company, or PFIC, which would result in adverse United States tax consequences to United States investors.***

We will be classified as a “passive foreign investment company,” or “PFIC” if, in the case of any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the average quarterly value of our assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of passive assets (including property producing passive income) and net foreign currency gains. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activity are taken into account as a non-passive asset. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Based on our current income and assets and the value of our ADSs and outstanding ordinary shares, we do not believe that we were a PFIC for our taxable year ended December 31, 2016 and we do not expect to be classified as a PFIC for our taxable year ending December 31, 2017 or in the foreseeable future.

With respect to our 2017 taxable year and foreseeable future taxable years, we presently do not anticipate that we will be a PFIC based upon the expected value of our assets, including goodwill (determined, in part, based on the price of our ADSs), and the expected future composition of our income and assets. However, we might be a PFIC for our 2017 taxable year or any future taxable years due to changes in our asset or income composition, or the value of our assets, including if our market capitalization is less than anticipated or subsequently declines.

Although the law in this regard is not entirely clear, we treat Our VIE as being owned by us for United States federal income tax purposes because we control its management decisions and we are entitled to substantially all of its economic benefits and, as a result, we consolidate its results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of Our VIE for United States federal income tax purposes, we could be treated as a PFIC for our taxable year ended December 31, 2016 and for subsequent taxable years.

If we were or are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, we generally will continue to be treated as a PFIC as to you for all succeeding taxable years during which you hold our ADSs or ordinary shares, except if you have made a mark-to-market election. Because there are uncertainties in the application of the relevant rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given that we will not be or have not been a PFIC for any year. If we were or are a PFIC, U.S. holders of our ADSs or ordinary shares could be subject to increased tax liabilities under United States federal income tax laws and could be subject to burdensome reporting requirements. See “Item 10. Additional Information—E. Taxation—Material United States Federal Income Tax Considerations—Passive Foreign Investment Company”.



## **Item 4. Information on the Company**

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

We commenced business in March 2010, operating a group buying and B2C e-commerce platform through Beijing Wowo Tuan Information Technology Co., Ltd. In order to facilitate investment in our company, we incorporated our holding company Wowo Limited in July 2011.

In April 2015, we completed our initial public offering and listed our ADSs on the NASDAQ Global Market under the symbol “WOWO.” We raised approximately US\$37.3 million in net proceeds from our initial public offering after deducting underwriting commissions and the offering expenses payable by us.

In June 2015, we acquired Join Me Group (HK) Investment Company Limited to establish our food services industry B2B business. We issued 741,422,780 ordinary shares and paid US\$30.0 million as consideration for the acquisition.

In September 2015, we divested our group buying and B2C e-commerce businesses to focus our efforts on our food services industry B2B business.

In September 2015, we raised US\$15.0 million in a private placement transaction with our co-chairperson Mr. Maodong Xu.

In June 2016, we changed the trading symbol for our ADSs listed on the NASDAQ Global Market to “JMU”. In December 2016, we also changed our company name to “JMU Limited.”

In August 2016, Xiao Nan Guo Restaurants Holdings Limited, a Hong Kong Stock Exchange listed company (Stock Code: 3666), through its wholly-owned subsidiary, acquired a 9.82% stake in our company via secondary transfers for a total consideration of HK\$368 million (approximately US\$47.5 million).

We currently conduct our operations in China through contractual arrangements between our wholly-owned PRC subsidiary, Shanghai Zhongming Supply Chain Management Co. Ltd., on the one hand and our consolidated affiliated entity in China, Shanghai Zhongmin Supply Chain Management Co. Ltd., and its shareholder on the other. Because the names of the two entities in English differ by only one letter, we refer to our wholly-owned PRC subsidiary as Our WFOE and to our consolidated affiliated entity and its subsidiaries as Our VIE in this annual report to avoid confusion.

Our principal executive offices are located at North Guoquan Road 1688 Long, No. 75, Building A8, 6F, Yangpu District, Shanghai 200438, People’s Republic of China and the telephone number at this address is +86 21 6015 1166. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

### **B. Business overview.**

We currently operate a leading online platform for providing B2B services to food-industry suppliers and customers in China. We acquired this business in a merger with Join Me Group (HK) Investment Company Limited, or JMU HK, in June 2015. Our B2B online platform recorded gross billing of RMB 10.9 billion (US\$1.6 billion) in 2016, measured in terms of gross merchandise value.

We connect suppliers and customers in the food service industry through our online platform. Our customers include restaurants, restaurant chains, hotels, food product manufacturers and others. We offer a wide selection of products at competitive prices through our website [www.ccjoin.com](http://www.ccjoin.com) and our mobile applications. We also offer convenient payment options and comprehensive customer services. Our customers are focused on the quality of raw materials that they source for their businesses, and we provide more comfort and confidence to our customers by verifying the qualification of suppliers. In addition to our online services, we also host numerous offline auction events to afford suppliers and customers the opportunity to meet in person and establish connections and in the meantime give traditional food service businesses the chances to adopt the online purchase process in a gradual manner.

We started with the mission to transform the connection between suppliers and customers in the food service industry

into a more transparent and efficient form, and from there we plan to leverage our supplier and customer base to further provide value-added services such as logistics and trade financing.

We are a technology-driven company and have invested heavily in developing our own highly scalable proprietary technology platform that supports our rapid growth and enables us to provide value-added technology services. In 2015, we developed our cloud procuring system, which can be both integrated into our customers' existing enterprise resource systems or be used independently as procurement management software.

Previously, we had operated a B2C e-commerce platform for local entertainment and lifestyle services. Although we disposed of this business in September 2015, we are still utilizing the experience we gained in operating an e-commerce platform as well as our capacity to leverage the big data from online purchases in our current B2B services business. We have classified our B2C business as discontinued operations in our consolidated financial statements.

We had revenues of US\$73.2 million and net loss of US\$25.3 million in 2016.

### ***Our Business Model***

Since the acquisition of our current B2B business, we have focused on developing an online marketplace that can connect suppliers and customers in the food service industry in China, while in the meantime developing our own online direct sales business. Leveraging our platform and the scale of our business, we have also begun to offer other services that are complementary to our core business and create significant value to our business partners, including third-party sellers and suppliers, and ultimately benefit our business and customers.

Currently substantially all of our business is carried out within China and Hong Kong. The total revenue of the food service industry in China was approximately RMB3,600 billion (US\$518.7 billion) in 2016, of which raw material procurement constituted approximately 30%. Most of this spending has been in the traditional offline form. Our B2B platform was started with the vision of reshaping industrial rules and building a more transparent and more efficient business ecosystem for food service businesses in China. Through cooperation with industry associations and hundreds of leading restaurants across China, we believe that we can create significant network effects with our B2B platform. We work closely with various reputable buyers and suppliers in the food service industry, providing one-stop procurement services, as well as product development, marketing and other value-added services, for a variety of food service businesses via the B2B platform [www.ccjoin.com](http://www.ccjoin.com).

#### *Online Marketplace*

In our online marketplace business, third-party sellers offer products to customers over our online marketplace. We acquired our B2B online marketplace in June 2015, and have been bringing new products and services to our online marketplace since then. As of December 31, 2016, there were over 16,300 third-party sellers in our online marketplace. Our B2B online platform recorded gross billing of RMB10.9 billion (US\$1.6 billion) in 2016, measured in terms of gross merchandise value. In order to attract more third-party sellers, we currently do not charge commission on transactions on our online marketplace. We provide transaction processing and billing services on all orders on our online marketplace. We require third-party sellers to meet our standards of quality. We aim to offer customers the same high quality customer experience regardless of the source of the products they choose.

#### *Online Direct Sales*

In our online direct sales business, we acquire products from suppliers and sell them directly to customers. We have been continually expanding our offering in direct sales since the acquisition of our B2B business in June 2015. As of December 31, 2016, we offered products in six of ten product categories through our online direct sales business model.

### ***Customer Experience***

We are committed to optimizing customer experience and achieving customer satisfaction. This commitment drives every aspect of our operations, which are focused on four core components: extensive product offerings, competitive pricing, compelling online experience and professional customer services.

## *Products*

We continually seek to add more products that appeal to our target customers. The number of products we offer has grown rapidly. Our offerings (including both online direct sales and online marketplace offerings) are organized into ten product categories on our website:

- food ingredients;
- seasonings;
- alcoholic and non-alcoholic drinks;
- hotel appliances;
- tableware;
- kitchen appliances;
- office appliances;
- furniture;
- hotel and restaurant information systems; and
- hotel and restaurant decoration.

Each of these categories is further divided into numerous subcategories to facilitate browsing.

## *Pricing*

We offer competitive pricing to attract and retain customers. We make continual efforts to maintain and improve an efficient cost structure and create incentives for our suppliers to provide us with competitive prices.

*Pricing policy.* We set our prices to be competitive with those on other major e-commerce websites and in physical stores in China. We typically negotiate with our suppliers for prices that are comparable to or lower than those offered to retailers in other sales channels. Currently, third-party sellers are free to set their own prices on our online marketplace.

*Special promotions.* We offer a selection of discounted products monthly. We also hold regular promotions for selected products for a limited period of time. Special promotions attract bargain hunters and give our customers an additional incentive to visit our website regularly.

## *Online Experience*

We believe that providing a compelling online experience is critical to attracting and retaining customers and increasing orders. We make sales primarily through our content-rich and user-friendly website [www.ccjoin.com](http://www.ccjoin.com) and mobile applications. Our website not only offers a broad selection of products at competitive prices but also provides easy site navigation, basic and advanced search functions and comprehensive product information. These features address customers' desire to view, understand and compare products before purchasing. With the increasing popularity of mobile internet-enabled devices, we have also developed applications and features adapted to mobile internet users, and we currently offer mobile access through our mobile website and our mobile applications.

Our website contains the following information and features:

*Comprehensive product information.* Each product page contains pictures of the product, price and applicable delivery expenses. Depending on the type of product, there will be additional information to help the customer make a purchase decision or recommendations to steer the customer towards additional products.

*Product recommendations.* Our website makes recommendations to customers based on our understanding of the market and popular products on our platform. We also provide product recommendations to our customers through various means, including emails, social network and hardcopy catalogues. Our sales volume gives us extensive marketing data about customer preferences that we believe will enable us to make recommendations that are appealing to our customers.

*Online purchase system.* We also provide an online purchase system that can be easily integrated into each customer's own enterprise resource planning, or ERP, system for them to more efficiently manage their purchase plans. Those small and medium size businesses that do not have their own ERP system can use our online purchase system to directly manage their enterprise resources.

*Online order tracking.* Customers can log into their accounts to check the status of their orders.

### *Customer Service*

Providing satisfactory customer services is a high priority. Our commitment to customers is reflected in the high level of service provided by our customer service staff as well as in our product return and exchange policies.

*Customer service center.* We have a customer service center in Shanghai, with 20 full-time customer service representatives as of December 31, 2016. Customers can call our telephone hotline, ask questions and leave complaints in writing through our website, or send us e-mails. Our customer representatives handled over 2,200 customer-initiated communications over the telephone for our B2B business in 2016.

*Returns and exchanges.* We generally allow customers to return defective products within 7 days or exchange within 15 days, counting from the date when the customer receives the product. We will generally arrange our third-party courier partners to pick up defective items for return or exchange at the customer's address. The policies apply to products sold by ourselves or third-parties sellers apply their own policies on returns and exchanges for transactions on our online marketplace..

*Membership program.* We have established a membership program to cultivate customer loyalty and encourage our customers to make additional purchases. There are three levels of members, and promotion to higher levels is based on the amount that the customer has spent with us. Members get a variety of benefits that increase with level, and generally higher level members can enjoy a lower purchase price even for the same item.

### *Third-party Seller Experience*

We are also endeavoring to make the transactions by third-party sellers on our platform convenient and efficient. For example, we link third-party sellers on our online marketplace to third-party service providers that offer either delivery services or a combination of warehousing plus delivery services as well as trade financing. Moreover, we also provide offline exhibition marketing services to sellers ourselves, in addition to the basic transaction processing and billing services that we provide them at no extra cost.

We also provide certain premium customers, suppliers and third-party sellers with reports on a regular basis as to recent procurement data and trends in the food services industry, to assist them to better develop their products and manage their inventory.

Our finance business unit is in the process of developing various financial products and services in addition to trade financing as additional value-added services we provide to our business partners, including third-party sellers. We will continue to develop innovative financial products that can further leverage our strengths in e-commerce and our technology platform.

Currently all the services mentioned above have been provided to third-party sellers free of charge as part of our strategy to grow the scale of our business.

### *Merchandise Sourcing*

In our online direct sales business, we sourced products from 253 suppliers as of December 31, 2016. Procuring products for the food services industry requires considerable specialized expertise, which is provided by our experienced buyer team. We negotiate with the higher-level distributor where possible in order to obtain the most favorable terms. In addition, we had over 16,300 third-party sellers on our online marketplace as of December 31, 2016.

We have created a vendor interface on our website where our third-party sellers can access reports regarding inventory status, purchase history and customer reviews of their products. Third-party sellers can use this information in their marketing and product development efforts and also in managing their own inventory, which helps them manage costs and makes our services more valuable to them.

We select suppliers and third-party sellers on the basis of brand, reliability, volume and price. They must be able to meet our demands for timely supply of high quality products and also provide high standard post-sale customer service. We perform background checks on each supplier and third-party seller and the products they provide before we enter into any agreement. We examine their business licenses and the qualification certificates for their products, and check their brand recognition and make inquiries about the market acceptance of their products among players in the same industry. We also conduct on-site visits to assess certain suppliers and third-party sellers and verify their location, scale of business, production capacity, property and equipment, human resources, research and development capability, quality control system and fulfillment capability. We also require all vendors to upload their business license, tax registration certificate and organization code certificate for our verification. Our standard form contract requires suppliers and third-party sellers to represent that their goods are from lawful sources and do not infringe upon lawful rights of third parties and to pay us liquidated damages for any breach. We normally enter into framework agreements with our suppliers and third-party sellers and renew them after expiration. We have also put stringent rules in place governing the operations of third-party sellers on our online marketplace. Third-party sellers will be subject to penalties or be asked to end their operations on our online marketplace if they violate the marketplace rules, for example by selling food beyond its expiration date.

### ***Technology Platform***

We have built our technology platform relying primarily on software and systems that we have developed in-house and to a lesser extent on third-party software that we have modified and incorporated. Our server fleet consisted of approximately 30 servers stored in two locations across the country as of December 31, 2016, and we employed 32 IT professionals to design, develop and operate our technology platform as of the same date. We believe that creating a comparable technology platform is an expensive and time-consuming process and constitutes a significant barrier to entry for potential competitors.

Our proprietary technology platform supports our rapidly growing processing capacity requirements, provides us detailed and accurate visibility and information throughout our operation value chain, and enables harnessing of insightful data analytics.

Our strong technology platform is vital in supporting our pursuit of a continually improving customer experience, including the customer experience of our mobile users. From our website, the primary customer interface, to the back end management systems, our technology platform supports smooth and accurate operational execution as well as seamless information flow, data consistency and analytics. We are also working with our key customers to integrate our platform into their own ERP system to facilitate their management of food supplies.

The principal components of our technology platform include:

- *Website and mobile applications.* Our website, together with our mobile applications, is our primary customer interface. It provides a user-friendly customer interface, including a powerful search engine to enhance our customers' shopping experience.
- *Vendor interfaces.* Our vendor interfaces support key functions such as order tracking and inventory checking and provide data analytics to help our third-party sellers better understand consumer needs.
- *Customer relationship management system.* Our customer relationship management system tracks customer information, including customers' outstanding orders, order and payment history, and settings and preferences, as well as all interaction between our customer service representatives and our customers, to ensure consistent and high quality customer service.
- *Transaction processing system.* Our transaction processing system handles transaction processing, online receipts and disbursements, remote reimbursement and other prerequisites for conducting an online business.



We have adopted security policies and measures, including encryption technology, to protect our proprietary data and customer information, and we back up our database, including customer data, every day with both on-site and off-site storage.

### ***Marketing***

We engage various marketing channels to expand our business to more suppliers and customers. We provide various incentives to our customers to increase their spending and loyalty, and we send e-mails to our customers periodically with product recommendations or promotions. To enhance our brand awareness, we also have engaged in brand promotion activities.

In addition to the online marketing activities, we also utilize offline activities to attract more users and promote our brand recognition. In 2016, we organized five offline auction events for food service businesses to purchase their supplies in bulk. The chance to meet business partners in person affords both suppliers and customers more comfort and confidence in their transactions on our platform.

We also utilize industrial associations to extend our services to an ever increasing number of food service business. Our services are recommended by the China Hotel Association, the China Cuisine Association and the China Tourist Hotel Association. These associations bring in high quality suppliers and customers, including both national-scale and local medium or small size businesses alike.

### ***Competition***

The e-commerce industry in China is intensely competitive. Our current or potential competitors include Alibaba, JD.com and Meicai as well as traditional offline food service suppliers.

We anticipate that the e-commerce market will continually evolve and will continue to experience rapid technological change, evolving industry standards, shifting customer requirements, and frequent innovation. We must continually innovate to remain competitive. We believe that the principal competitive factors in our industry are:

- brand recognition and reputation;
- product quality and selection;
- pricing;
- fulfillment capabilities; and
- customer service.

In addition, new and enhanced technologies may increase the competition in the online retail industry. New competitive business models may appear, for example based on new forms of social media or social commerce.

We believe that we are well-positioned to effectively compete on the basis of the factors listed above. However, some of our current or future competitors have or may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technical or marketing resources than we do.

### ***Seasonality***

We believe that we experience seasonality in our business that reflects seasonal fluctuations in purchase patterns for food service business. In general, the fourth quarter is the high season for the food service industry in China, and consequently we expect the purchases on our B2B platform to be higher in the fourth quarter of each year compared to the first three. However, due to our limited operating history, the seasonal trends that we experience in the future may not match our expectations.

## ***Intellectual Property***

We regard our trademarks, copyrights, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on copyright and trademark law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of December 31, 2016, we owned eight computer software copyrights in China relating to various aspects of our operations. We had 72 trademark applications inside China and 19 outside China. As of December 31, 2016, we had registered four generic top-level domain names. Our registered domain names include www.ccjoin.com and www.ccjmu.com, among others.

## ***Regulation***

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

### *Regulations Relating to Foreign Investment*

*Industry Catalogue Relating to Foreign Investment.* Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission. Industries listed in the Catalogue are divided into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are generally deemed as constituting a fourth “permitted” category. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations.

Through Our WFOE and Our VIE, we are engaged in certain industries that are classified as “restricted” under the Catalogue. Pursuant to the latest Catalogue amended in March 2015, the provision of value-added telecommunications services falls in the restricted category and the percentage of foreign ownership cannot exceed 50% (excluding e-commerce), the purchase of grains, wholesale of grains and cotton fall in the restricted category. We engages in the online wholesale and retail of products (except the grains and cotton), the development of computer network technology, technical consultancy and technical services, which are in the permitted category. Under PRC law, the establishment of a wholly foreign owned enterprise is subject to the approval of, or the requirement for record filing with, the Ministry of Commerce or its local counterparts and the wholly foreign owned enterprise must register with the competent industry and commerce bureau. We have duly obtained the approvals from the Ministry of Commerce or its local counterparts for our interest in our wholly owned PRC subsidiaries and completed the registration of these PRC subsidiaries with the competent industry and commerce bureau.

In October 2016, the Ministry of Commerce issued the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises, or FIE Record-filing Interim Measures, effective on the same day. Pursuant to FIE Record-filing Interim Measures, the establishment and change of foreign-invested enterprises are subject to record-filing procedures, instead of prior approval requirements, provided that the establishment or change does not involve special entry administration measures. If the establishment or change of FIE matters involve the special entry administration measures, the approval of the Ministry of Commerce or its local counterparts is still required. Pursuant to the Announcement [2016] No. 22 of the National Development and Reform Commission and the Ministry of Commerce dated October 8, 2016, the special entry administration measures for foreign investment apply to restricted and prohibited categories specified in the Catalogue, and the encouraged categories are subject to certain requirements relating to equity ownership and senior management under the special entry administration measures.

*Foreign Investment in the Commercial Sector.* According to the Administrative Measures on Foreign Investment in the Commercial Sector issued by the Ministry of Commerce in April 2004 and amended in October 2015, a foreign-invested enterprise may, upon approval, undertake one or more types of businesses in the commercial sector, which is defined in the measures to include wholesale, retail, commission agency and franchising, and the types of commodities it deals with must be specified in the scope of business prescribed in its articles of association. In order to establish a foreign-invested company in the commercial sector, foreign investors must apply to the relevant provincial counterpart of the Ministry of Commerce, and such provincial authority will, after making preliminary examination of the documents submitted, report to the Ministry of Commerce to obtain its approval. The incorporation of an enterprise by a foreign-invested enterprise that intends to conduct business in the commercial sector is also subject to the approval of the local counterpart of the Ministry of Commerce. On several occasions in 2005, 2008 and 2010, the Ministry of Commerce delegated its approval authority to its provincial counterparts and authorized them to examine and approve certain applications. Currently, the provincial counterparts of the Ministry of Commerce have the authority to approve applications for setting up foreign-invested enterprises solely engaging in sale of goods through the internet, among others. Our WFOE and its subsidiaries engage in retail, wholesale and commission agency of food, liquor and other general merchandise via the internet. While Our WFOE has obtained approval from the relevant authorities for this business, most of its subsidiaries were established without obtaining the prior approval from the local counterpart of the Ministry of Commerce.

*Foreign Investment in Value-Added Telecommunications Businesses.* The Regulations for Administration of Foreign-invested Telecommunications Enterprises promulgated by the PRC State Council in December 2001 and subsequently amended in September 2008 and February 2016 set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. These regulations prohibit a foreign entity from owning more than 50% of the total equity interest in any value-added telecommunications service business in China and require the major foreign investor in any value-added telecommunications service business in China have a good and profitable record and operating experience in this industry. Due to these regulations, we operate our website [www.ccjoin.com](http://www.ccjoin.com) through Our VIE.

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

### *Licenses and Permits*

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

*Value-added Telecommunication License.* The Telecommunications Regulations promulgated by the State Council and its related implementation rules, including the Catalogue of Classification of Telecommunications Business issued by the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, and internet information services, or ICP services, are classified as value-added telecommunications businesses. Under the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an ICP License from the MIIT or its provincial level counterparts. In 2000, the State Council also issued the Administrative Measures on Internet Information Services, which was amended in 2011. According to these measures, a commercial ICP service operator must obtain an ICP License from the relevant government authorities before engaging in any commercial ICP service in China. When the ICP service involves areas of news, publication, education, medical treatment, health, pharmaceuticals and medical equipment, and if required by law or relevant regulations, specific

approval from the respective regulatory authorities must be obtained prior to applying for the ICP License from the MIIT or its provincial level counterpart. In 2009, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licenses, which set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Our VIE, as our ICP operator, holds an ICP License issued by the Shanghai Telecommunications Administration for the provision of information services through the internet and also a value-added telecommunication license issued by the MIIT for the provision of information services through a mobile network, the provision of internet data center services, internet access services, and online data processing and transaction processing services.

Food Distribution Permit. China has adopted a licensing system for food supply operations under the Food Safety Law and its implementation rules. Entities or individuals that intend to engage in food production, food distribution or food service businesses must obtain licenses or permits for such businesses. Pursuant to the Administrative Measures on Food Operation Licensing issued by the SFDA in August 2015, an enterprise needs to obtain a Food Operation Permit from the local food and drug administration, and the permits already obtained by food business operators prior to the effective date of these new measures will remain valid for their originally approved validity period. We sell food and nutritional supplements through our website. Our PRC WFOE engaging in food distribution business have obtained Food Distribution Permits.

License or Registration for Wholesale and Retail of Liquor . The Measures for the Administration of Liquor Circulation, issued by the Ministry of Commerce in November 2005, require any entity engaged in the wholesale or retail of liquor to file and register, within 60 days of acquiring a business license, with the local branch of the Ministry of Commerce at the same level as the local branch of the State Administration of Industry and Commerce where the entity is registered. In addition, certain provinces in the PRC have adopted a licensing system for the wholesale or retail of liquor. We sell liquor through our website. Our WFOE or its branches engaging in the wholesale or retail of liquor have obtained the license or completed the required registration with the local branches of the Ministry of Commerce for such business.

#### *Regulations Relating to E-Commerce*

China's e-commerce industry is at a relatively early stage of development and there are few PRC laws or regulations specifically regulating the e-commerce industry. In May 2010, the State Administration of Industry and Commerce adopted the Interim Measures for the Administration of Online Commodities Trading and Relevant Services, which took effective in July 2010. Under these measures, enterprises or other operators which engage in online commodities trading and other services and have been registered with the State Administration of Industry and Commerce or its local branches must make the information stated in their business license available to the public or provide a link to their business license on their website. Online distributors must adopt measures to ensure safe online transactions, protect online shoppers' rights and prevent the sale of counterfeit goods. Information on products and transactions released by online distributors must be authentic, accurate, complete and sufficient.

In January 2014, the State Administration of Industry and Commerce promulgated the Administrative Measures for Online Trading, which terminated the above interim measures and became effective in March 2014. The Administrative Measures for Online Trading further strengthen the protection of consumers and impose more stringent requirements and obligations on online business operators and third-party online marketplace operators. For example, online business operators are required to issue invoices to consumers for online products and services. Consumers are generally entitled to return products purchased from online business operators within seven days upon receipt, without giving any reason. Online business operators and third-party online marketplace operators are prohibited from collecting any information on consumers and business operators, or disclosing, selling or providing any such information to any third party, or sending commercial electronic messages to consumers, without their consent. Fictitious transactions, deletion of adverse comments and technical attacks on competitors' websites are prohibited as well. In addition, third-party online marketplace operators are required to examine and verify the identifications of the online business operators and set up and keep relevant records for at least two years. Moreover, any third-party online marketplace operator that simultaneously engages in online trading for products and services should clearly distinguish itself from other online business operators on the marketplace platform. We are subject to these measures as a result of our online direct sales and online marketplace.

#### *Regulations Relating to Internet Content and Information Security*

The Administrative Measures on Internet Information Services specify that internet information services regarding news, publications, education, medical and health care, pharmacy and medical appliances, among other things, are to be examined, approved and regulated by the relevant authorities. Internet information providers are prohibited from providing services beyond those included in the scope of their ICP licenses or filings. Furthermore, these measures clearly specify a list of prohibited content. Internet information providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet information providers that violate the prohibition may face criminal charges or administrative sanctions by the PRC authorities. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the offending content immediately, keep a record of it and report to the relevant authorities.



Internet information in China is also regulated and restricted from a national security standpoint. The National People's Congress, China's national legislative body, has enacted the Decisions on Maintaining Internet Security, which may subject violators to criminal punishment in China for any effort to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content.

#### *Regulations Relating to Internet Privacy*

In recent years, PRC government authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. The Administrative Measures on Internet Information Services prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in 2011, an ICP operator may not collect any user personal information or provide any such information to third parties without the consent of a user. An ICP service operator must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or providing such information to other parties. Any violation of the above decision or order may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities. Furthermore, in June 2016, the State Internet Information Office issued the Administrative Provisions on Mobile Internet Applications Information Services, which became effect on August 1, 2016, to further strengthen the regulation of the mobile application information services. Pursuant to these provisions, owners or operators of mobile internet applications that provide information services are required to be responsible for information security management, establish and improve the protective mechanism for user information, observe the principles of legality, rightfulness and necessity, and expressly state the purpose, method and scope of, and obtain user consent to, the collection and use of users' personal information. In addition, the new Cyber Security Law also requires network operators to strictly keep confidential users' personal information that they have collected and to establish and improve user information protective mechanism. We have required our users to consent to our collecting and using their personal information, and established information security systems to protect user's privacy.

#### *Regulations Relating to Product Quality and Consumer Protection*

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

The Consumer Protection Law sets out the obligations of business operators and the rights and interests of the consumers in China. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about the commodities, and guarantee the quality, function, usage and term of validity of the commodities. Failure to comply with the Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, replacement of commodities, repairing, ceasing damages, compensation, and restoring reputation, and even subject the business operators or the responsible individuals to criminal penalties when personal damages are involved or if the circumstances are severe. The Consumer Protection Law was further amended in October 2013 and became effective in March 2014. The amended Consumer Protection Law further strengthen the protection of consumers and impose more stringent requirements and obligations on business operators, especially on the business operators through the internet. For example, the consumers are entitled to return the goods (except for certain specific goods) within seven days upon receipt without any reasons when they purchase the goods from business operators on the internet. The consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers. Where the providers of the online marketplace platforms are unable to provide the real names, addresses and valid contact details of the sellers or service providers, the consumers may also claim damages from the providers of the online marketplace platforms. Providers of online marketplace platforms that know or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liabilities with the sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services.

We are subject to the Product Quality Law and the Consumer Protection Law as an online supplier of commodities and a provider of online marketplace platform and believe that we are currently in compliance with these regulations in all material aspects.

#### *Regulations Relating to Pricing*

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

#### *Regulations Relating to Leasing*

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

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

Pursuant to the PRC Property Law, if a mortgagor leases the mortgaged property before the mortgage contract is executed, the previously established leasehold interest will not be affected by the subsequent mortgage; and where a mortgagor leases the mortgaged property after the creation and registration of the mortgage interest, the leasehold interest will be subordinated to the registered mortgage.

#### *Regulations Relating to Intellectual Property Rights*

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

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

Trademark. The Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of State Administration of Industry and Commerce is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. As of December 31, 2016, we had approximately 91 trademark applications in China.

Domain Name. Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the "first to file" principle with respect to the registration of domain names. We have registered www.ccjoin.com and other domain names.

#### *Regulations Relating to Employment*

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

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline and be subject to a late fee. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Management of Housing Fund, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement. We have not made adequate contributions to employee benefit plans, as required by applicable PRC laws and regulations.

#### *Regulations Relating to Dividend Withholding Tax*

Pursuant to the Enterprise Income Tax Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation), which became effective in October 2009, require that non-resident enterprises must obtain approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. Accordingly, Join Me Group (HK) Investment Company Limited may be able to enjoy the 5% withholding tax rate for the dividends it receives from Our WFOE, if it satisfies the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtain the approvals as required. However, according to Circular 81, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

#### *Regulations Relating to Foreign Exchange*

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

In August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular No. 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular No. 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. SAFE also strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. In March 2015, SAFE issued SAFE Circular No.19, which took effective and replaced SAFE Circular No. 142 from June 1, 2015. Although SAFE Circular No.19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, the restrictions

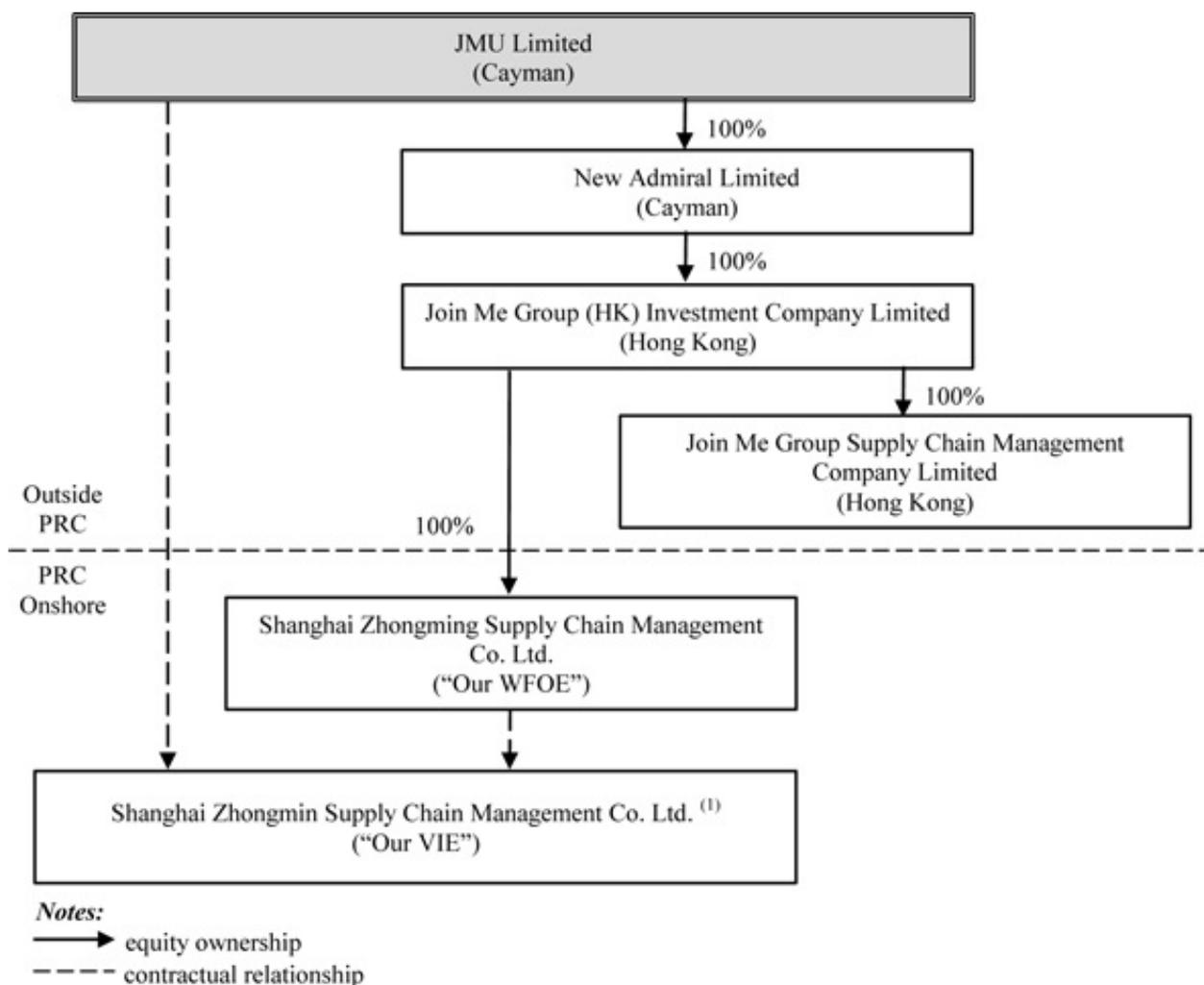
continue to apply as to foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts (e.g. pre-establishment expenses account, foreign exchange capital account, guarantee account), the reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment), and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer require SAFE approval, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible before. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

In February 2015, SAFE promulgated the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular No. 13, which took effect on June 1, 2015. SAFE Circular No. 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

### C. Organizational Structure.

The following diagram illustrates our corporate structure as of the date of this annual report.



(1) The shareholder of Our VIE is Shanghai Zhongmin Investment and Development Group Co., Ltd. (formerly known as Shanghai Zhongmin Investment and Development Co., Ltd.), the shareholders of which in turn are Ms. Xiaoxia Zhu, our co-

chairperson and chief executive officer, and Ms. Huimin Wang, our director, holding 50% equity interests each.

## **Contractual Arrangements with Our Consolidated Affiliated Entity**

### ***Agreements that Transfers Economic Benefits and Risks to the Us***

*Master Exclusive Service Agreement and Business Cooperation Agreement.* Pursuant to the Master Exclusive Service Agreement and Business Cooperation Agreement, Our VIE, including its subsidiaries or any companies or entities under its control, agrees to engage Our WFOE as its provider for technical and business support services. Our VIE will pay Our WFOE service fees determined based on the audited consolidated net profit of Our VIE. Our WFOE will exclusively own any intellectual property arising from the performance of the services set forth in the agreement. Our WFOE will provide financial support to Our VIE in the form of bank loans or others forms as permitted under the PRC laws. The service agreements will remain effective upon the written confirmation issued by Our WFOE to Our VIE and/or its shareholder 30 days before the termination. Neither Our VIE nor its shareholder has the right to unilaterally terminate the agreement.

In connection with the master service agreement, we also entered into financial support undertaking letter with Our VIE and agrees to provide unlimited financial support to the Our VIE, to the extent permissible under the applicable PRC laws and regulations, whether or not any such operational loss is actually incurred. We will not request repayment of the loans or borrowings if the Our VIE or its shareholder do not have sufficient funds or are otherwise unable to repay.

### ***Agreements that Provide Us with Effective Control over Our VIE***

Foreign investment in internet companies is currently subject to significant restrictions under PRC laws and regulations. As a Cayman Islands holding company, we do not qualify to conduct these businesses under PRC regulations. In addition, foreign investment in the online service industry requires the foreign investor to possess certain qualifications, which we do not have, and our PRC subsidiary, Our WFOE, is considered a foreign invested enterprise which is restricted from holding the licenses that are essential to the operation of our business, such as licenses for operating our website. As a result, Our WFOE has entered into a series of contractual arrangements with Our VIE and its shareholder described below, through which we exercise effective control over the operations of Our VIE and its subsidiaries. We conduct our operations in China principally through Our VIE and its subsidiaries, which we treated as our consolidated affiliated entities in China. Each of the contractual arrangements between Our WFOE, Our VIE and its shareholder was executed in May 2015. These contractual arrangements enable us to exercise effective control over these entities and receive substantially all of the economic benefits from them.

*Equity Interest Pledge Agreement.* Our VIE's shareholder has entered into an equity pledge agreement with the Our WFOE, under which the shareholder pledged all of the equity interests in Our VIE to Our WFOE as collateral to secure performance of all obligations under the Master Exclusive Service Agreement, Business Cooperation Agreement, Proxy Agreement and Power of Attorney and the Exclusive Option Agreement (collectively, the "Principal Agreement"). Pursuant to this Equity Interest Pledge Agreement, dividends generated by the pledged equity interests shall be deposited into the account designated by the Our WFOE and shall be used to pay the secured indebtedness prior and in preference to any other payment during the term of the pledge. If any event of default incurred under the Principal Agreement, Our WFOE, as the pledgee, will be entitled to dispose of the pledged equity interests and shall be paid in priority with the proceeds recovered from the disposal.

*Proxy and Power of Attorney Agreement .* Our VIE's shareholder has signed an Irrevocable Proxy and Power Of Attorney Agreement to appoint Our WFOE, or its designee, as the attorney-in-fact to act on Our VIE's shareholder's behalf on all rights that the shareholder has in respect of such shareholder's equity interest in Our VIE conferred by relevant laws and regulations and the articles of association of Our VIE. The rights include but not limited to attending shareholders meeting, exercising voting rights and transferring all or a part of the equity interests of Our VIE held by the shareholder. The proxy and power of attorney will remain effective upon written confirmation issued by Our WFOE to Our VIE and its shareholder 30 days before the termination. Neither Our VIE nor its Shareholder has the right to unilaterally terminate the agreement.

*Exclusive Option Agreement.* Our VIE's shareholder has entered into an Exclusive Option Agreement with Our WFOE, pursuant to which Our WFOE has an exclusive option to purchase, or to designate other persons to purchase, to the extent permitted by applicable PRC laws, rules and regulations, all of the equity interest in Our VIE from the shareholder. The purchase price for the entire equity interest is to be the minimum price permitted by applicable PRC laws and administrative regulations. If there is no minimum price under PRC laws or administrative regulations, the price shall be determined by the Our WFOE or on a basis of the registration capital of Our VIE. The term of the exclusive option agreement will remain effective upon written confirmation issued by the Our WFOE to Our VIE and its shareholder 30 days before the termination. Neither Our VIE nor its shareholder has the right to unilaterally terminate the agreement.

We have been advised by our PRC legal counsel, Beijing Dentons Law Offices, LLP, that the ownership structure and the contractual arrangements among Our WFOE, Our VIE and its shareholder will not result in any violation of PRC laws or regulations currently in effect. However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinion of our PRC legal counsel. Our PRC legal counsel has further advised that if the PRC government authority finds that our corporate structure, the contractual arrangements or the reorganization to establish our current corporate structure do not comply with any applicable PRC laws, rules or regulations, the contractual arrangements will become invalid or unenforceable, and we could be subject to severe penalties including being prohibited from continuing operations. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure— If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in internet business, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could have an adverse effect on us".

#### **D. Property, plants and equipment.**

Our executive offices are located at North Guoquan Road 1688 Long, No. 75, Building A8, 6F, Yangpu District, Shanghai 200438, China and occupy a total of 9,104 square meters. The lease of our headquarter office has a term of 15 years.

The servers that we use to provide our products and services are primarily maintained at China Telecom and China Unicom branches in cities across China, including Shanghai and Kunshan.

#### **Item 4A. Unresolved Staff Comments**

Not applicable.

#### **Item 5. Operating and Financial Review and Prospects**

##### **A. Operating results.**

###### **Overview**

We currently operate a leading online platform for providing B2B services to food-industry suppliers and customers in China. We acquired this business in a merger with JMU HK, in June 2015. Our B2B online platform recorded gross billing of RMB10.9 billion (US\$1.6 billion) in 2016, measured in terms of gross merchandise value.

We incurred losses from operations of US\$4.3 million, US\$105.9 million, and US\$27.6 million for the years ended December 31, 2014, 2015 and 2016, respectively. As we only acquired our current continuing operation in 2015, our loss from operations for the year ended December 31, 2014 was primarily due to the share-based compensation we incurred during 2014. Our loss from operations for the year ended December 31, 2015 was mainly due to goodwill impairment of US\$85.9 million as well as the incurrence of general and administrative expenses of US\$12.9 million related to our current B2B business. Our loss from operations for the year ended December 2016 was mainly due to the incurrence of selling and marketing expenses of US\$20.4 million related to our current B2B business.



## Factors Affecting Our Results of Operations

Besides the operating metrics that directly affect our revenues, there are a number of factors that affect our results of operations, including:

*Continued growth of China's economy and food service industry in general.* Our results of operations and financial condition are affected by the general factors driving China's food industry, including levels of procurement spending by restaurants in China. In addition, they are also affected by factors driving online B2B business in China, such as the adoption of online procurement strategies by restaurants or adoption of online sales strategies by suppliers, the availability of improved delivery services and the increasing variety of payment options. Our results of operations are also affected by general economic conditions in China. In particular, we have experienced and expect to continue to experience upward pressure on our operating expenses.

*Competitive pressure.* We operate in a highly competitive market. We compete with a number of other e-commerce service providers that have significant capital and human resources, some of which have also launched initiatives in direct competition with our business. The terms and conditions we offer our suppliers and customers are affected by our competitors' strategies, which, as a result, affect our cost of operation. Competition also has a direct effect on our ability to retain existing customers and attract new customers.

*Marketing expense.* We engage in a variety of different online marketing efforts tailored to our targeted customers and suppliers to expand our customer and supplier base. Expenses incurred for marketing and other promotional efforts may have a negative impact on our profitability, if they prove to be ineffective and do not expand our customer base as intended.

*Seasonality.* We believe that we experience seasonality in our business that reflects seasonal fluctuations in purchase patterns for food services businesses. In general, the fourth quarter is the high season for the food service industry in China, and consequently we expect the purchases on our B2B platform to be higher in the fourth quarter of each year compared to the first three. However, due to our limited operating history, the seasonal trends that we experience in the future may not match our expectations.

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

- our ability to increase active customer accounts and orders from customers;
- our ability to manage our mix of product and service offerings; and
- our ability to further increase and leverage our scale of business;

### ***Our Ability to Increase Active Customer Accounts and Orders from Customers***

Growth in the number of our active customer accounts and orders are key drivers of our revenue growth. The B2B business for food service industry that we are currently operating was only started in late 2014, and in 2016 we had more than 33,000 active customer accounts, defined as customers that have made at least one purchase on our B2B platform within a specific financial year. We believe that we were successful in attracting both new active customer accounts and new orders from existing customer accounts. Within little more than two years after its launch, gross billing on our online B2B platform reached RMB10.9 billion (US\$1.6 million) in 2016, measured in terms of gross merchandise value.

Our ability to attract new customer accounts and new orders from existing customer accounts depends on our ability to provide superior customer experience. To this end, we offer a wide selection of products at competitive prices on our website and mobile applications and provide speedy and reliable delivery, convenient payment options and comprehensive customer services. The number of products we offer has grown rapidly. We have benefited from word-of-mouth viral marketing in winning new customers, and we also conduct online and offline marketing and brand promotion activities to attract new customers. In addition, we encourage existing customers to place more orders with us through a variety of means, including loyalty points.



### ***Our Ability to Manage Our Mix of Product Offerings***

Our results of operations are also affected by the mix of products we offer. We commenced our B2B business for food service industry with sales to restaurants. We are gradually expanding our offerings to hotel-related products. The extent and mix of products we provided will influence our users' willingness to utilize our online platform for more of their needs. In addition, our mix of products also affects our gross margin, as different products have different gross margins.

### ***Our Ability to Further Increase and Leverage our Scale of Business***

Our results of operations are directly affected by our ability to further increase and leverage our scale of business. As our business further grows in scale, we expect to obtain more favorable terms from our suppliers, including pricing terms and volume-based rebates. In addition, we aim to create value for our suppliers by providing an effective channel for selling large volumes of their products online and by offering them comprehensive information on customer preferences and market demand and ensuring the high quality of storage and delivery services. We believe this value proposition also helps us obtain favorable terms from suppliers.

Currently we are selling products in our direct sales business at low margin, and we are not charging any commission or service fees for third-party sellers to use our platform. There is no assurance that we can keep the expansion of our B2B business at the current pace after we start to apply higher margins to transactions in our direct sale business and charge commission or service fees to third-party sellers. Our ability to leverage our scale of business to induce our platform users to continue using our services with margins and service charges is one key factor affecting our future operational and financial performance.

### **Revenues**

We derive our revenues from direct sales and online platform services. We record revenue from online direct sales on a gross basis and revenue from the online platform services that we provide to third-party sellers and purchasers for their transactions on a net basis. Revenue is recorded net of surcharges and value-added tax, or VAT, and related surcharges.

Our revenues were nil, US\$11.5 and US\$73.2 million for the years ended December 31, 2014, 2015 and 2016, respectively.

### **Cost of Revenues**

Our costs of revenues are direct and indirect costs incurred to generate revenues, and consist primarily of our cost for acquiring the products that we sell directly and the related shipping charges, as well as inventory write-downs. The rebates and subsidies we receive from suppliers are accounted as a reduction to the purchase price and will be recorded as a reduction of cost of revenues when the product is sold.

Our cost of revenues was nil, US\$13.2 and US\$72.9 million for the years ended December 31, 2014, 2015 and 2016, respectively.

### **Operating Expenses**

The following table sets forth our operating expenses by amount and as a percentage of total operating expenses for the periods indicated:

	For the year ended December 31					
	2014		2015		2016	
	US\$	%	US\$	%	US\$	%
Operating Expenses						
Selling and marketing	—	0.0%	5,360,044	5.1%	20,405,602	73.0%
General and administrative	4,323,253	100.0%	12,911,773	12.4%	7,530,851	27.0%
Impairment of goodwill	—	0.0%	85,934,770	82.5%	—	0.0%
Total operating expenses	4,323,253	100%	104,206,587	100%	27,936,453	100%



Our operating expenses consist of selling and marketing expenses and general and administrative expenses as well as impairment of goodwill. Our total operating expenses were US\$4.3 million, US\$104.2 million and US\$27.9 million for the years ended December 31, 2014, 2015 and 2016, respectively.

### *Selling and marketing expenses*

Our selling and marketing expenses primarily consist of expenses incurred in connection with advertisements and market promotion events, loyalty program, as well as other overhead expenses incurred for our sales and marketing personnel.

Our selling and marketing expenses were nil, US\$5.4 and US\$20.4 million for the years ended December 31, 2014, 2015 and 2016, respectively.

### *General and administrative expenses*

Our general and administrative expenses primarily consist of:

- salaries and benefits for employees, which are the salaries and benefits for our management, merchant service representatives and general administrative staff;
- share-based compensation to employees, which is the expense incurred in connection with the grant of share options to our directors, officers and other employees pursuant to our share incentive plan; and
- office expenses, which consist primarily of office rental, maintenance and utilities expenses, depreciation of office equipment and other office expenses.

Our general and administrative expenses were US\$4.3 million, US\$12.9 million and US\$7.5 million, for the years ended December 31, 2014, 2015 and 2016, respectively.

### **Taxation**

We are incorporated in the Cayman Islands. Under Cayman Islands law, we are not subject to income or capital gains tax.

Our subsidiary incorporated in the Cayman Islands is not subject to income or capital gains tax in the Cayman Islands, and dividend payments by this subsidiary to us are not subject to withholding tax in the Cayman Islands.

Our subsidiary in Hong Kong is subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations. Dividend payments by this subsidiary to us are not subject to withholding tax in Hong Kong.

Our subsidiary and our consolidated variable interest entities in China are subject to value-added tax, or VAT, at rates of either 17% or 13%. In addition, they are generally subject to the standard enterprise income tax in China at a rate of 25%.

Under the Enterprise Income Tax Law and its implementation regulations, a 10% PRC income tax is applicable to dividends payable to investors that are “non-resident enterprises,” enterprises that do not have an establishment or place of business in the PRC, to the extent such dividends have their sources within the PRC. Such dividends are also subject to the 10% tax even if the recipient has an establishment or place of business in the PRC if the relevant income is not effectively connected with the establishment or place of business. Under a special arrangement between China and Hong Kong, dividends from our PRC subsidiary paid to our Hong Kong subsidiary, which would otherwise be subject to a 10% withholding tax, may be subject to a 5% preferential withholding tax if our Hong Kong subsidiary can be considered as a “beneficial owner” of our PRC subsidiary and is otherwise entitled to the benefits under the special arrangement. The State Administration for Taxation promulgated the Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties on October 27, 2009, which provides guidance on the determination of “beneficial owner”. If our Hong Kong subsidiary is not considered to be the “beneficial owner” of our PRC subsidiary under this notice, any dividends paid by our PRC subsidiary to our Hong Kong subsidiary would be subject to withholding tax at a rate of 10%.



If our Cayman Islands holding company or our Hong Kong subsidiary is deemed to be a “resident enterprise” under the Enterprise Income Tax Law, then it is not clear whether or how the PRC tax authorities would apply the PRC tax on dividends payable by our PRC subsidiary to our Hong Kong subsidiary or by our Hong Kong subsidiary to us. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Under the PRC enterprise income tax law, we could be classified as a ‘resident enterprise’ of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”

### **Provision for Income Tax Benefit**

We are subject to PRC Enterprise Income Tax Law on taxable income in accordance with the relevant PRC income tax laws. We incurred net losses of US\$43.9 million, US\$93.6 million and US\$25.3 million for the years ended December 31, 2014, 2015 and 2016, respectively. Our provision for income tax benefit were nil, US\$1.2 million and US\$2.2 million for the years ended December 31, 2014, 2015 and 2016, respectively.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our board of directors. Actual results may differ from these estimates under different assumptions or conditions. An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We believe that the following critical accounting policies are the most sensitive and require more significant estimates and assumptions used in the preparation of our consolidated financial statements.

You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

#### ***Revenue Recognition***

We recognize revenue from the sales of rice, flavoring, oil, seafood, wine and other types of generic food and beverage products through our online platform [www.ccjoin.com](http://www.ccjoin.com). The website also serves as an online platform to connect third party vendors and customers. We recognize revenue when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

We recognize revenue when the customers confirm the acceptance of the goods once they receive the delivered goods. The sales returns are considered and estimated when the related revenue was recognized.

Revenue is recorded net of surcharges and value-added tax ("VAT") and related surcharges.

We primarily generate revenue from online direct sales and online platform services.

#### ***Online direct sales***

We primarily sell rice, flavoring, oil, seafood, wine and other products relating to catering and hotel industries through online direct sales. There is a separate channel on our online platform designated for our online direct sales, and we record revenue from online direct sales on a gross basis as we act as the principal in these arrangements: we are the primary obligor in the sales arrangements, have latitude in establishing prices and have discretion in suppliers' selection. On certain transactions, we also retain some of general inventory risk and physical inventory loss risk.



### *Online platform services*

We also provide the online platform services to connect third-party sellers and purchasers for their transactions via our online marketplace. Online platform sales are made from the online stores under the third-party sellers' names, and we record the related revenue on a net basis as we act as the agent in these arrangements: we are not the primary obligor, do not bear inventory risk, and do not have the ability to establish the price or discretion in supplier selection. For the years ended December 31, 2015 and 2016, revenues related to the online platform services were nil, as we did not charge any service fees to the third-party sellers and purchasers.

### *Impairment of Goodwill and Long-lived Assets*

Goodwill represents the cost of an acquired business in excess of the fair value of tangible and identifiable intangible net assets purchased. We seek the assistance of an independent valuation firm in determining the fair value of the identifiable intangible net assets of the acquired business. We assign all the assets and liabilities of an acquired business, including goodwill, to reporting units.

Some of the significant estimates and assumptions inherent in the discounted cash flow, or DCF method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's economic life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment, as different types of intangible assets will have different useful lives.

Specifically, the income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts developed by us. The financial projections used in deriving the fair values of intangible assets were consistent with our business plan. However, these assumptions were inherently uncertain and highly subjective. These assumptions include: no material changes in the existing political, legal and economic conditions in China; no major changes in the tax rates applicable to our subsidiaries and consolidated affiliated entities in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts.

Goodwill is tested for impairment at least once annually or more frequently if we believe indications of impairment exist. Impairment is tested using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. We currently have one reporting unit, which recorded goodwill in relation to the acquisition of JMU HK in June 2015.

If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Estimating the fair value of reporting unit is performed by the DCF method.

For the years ended 2013 and 2014 and through the date of completion of the merger with JMU, we had one reporting unit, the group buying business. We estimated that there was no impairment of goodwill as of December 31, 2013 and 2014 as the fair value of the reporting unit exceeded the carrying amount.

After the divestiture of the group buying business, we had one reporting unit, our B2B business for the food service industry. We performed the annual impairment test on December 31, 2015 and 2016 by applying the DCF method. The fair value was determined using models with significant unobservable inputs (Level 3 inputs), which primarily included management projections on the discounted future cash flow analysis including the discount rate using a weighted average cost of capital of 17.5% (2015:17.0%) and expected revenue growth rates. The estimated fair value of the reporting unit was below the carrying amount of our net assets. We recognized an impairment loss of US\$85.9 million and nil for the years ended December 31, 2015 and 2016, respectively.



We estimated the fair values of the intangible assets with the assistance from an independent third-party appraiser. We are ultimately responsible for the determination of all amounts related to the intangible assets recorded in the financial statements.

Acquired intangible assets are amortized over their useful lives. Useful lives are based on our management's estimates of the period that the assets will generate revenue. We amortize intangible assets with determinable useful lives on a straight-line basis. We evaluate intangible assets with determinable useful lives for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We measure recoverability of long-lived assets to be held and used as part of an asset group by comparing the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If we believe the assets are impaired, the impairment will equal the amount by which the carrying value of the assets exceeds the fair value of the assets.

Considering that we have incurred operating losses, we have determined to perform the annual impairment tests on acquired intangible assets on December 31 of each year. As a result of the annual impairment test, no impairment loss of acquired intangible assets was recognized for the years ended December 31, 2014, 2015 and 2016. Estimates of fair value involve a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. Our judgments in determining an estimate of fair value can materially impact our results of operations. We base these valuations on information available as of the impairment review date and on expectations and assumptions that management deems reasonable. Any changes in key assumptions, including unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in impairment charges.

### ***Income Taxes***

We follow the liability method in accounting for income taxes in accordance with ASC topic 740 ("ASC 740"), Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

We apply the provision of ASC 740 to account for uncertainty in income taxes. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements.

We have elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of operations.

### ***Share-based payments***

Share-based payment awards with employees are measured based on the grant date fair value of the equity instrument issued, and recognized as compensation costs net of an estimated forfeiture rate using the straight-line method over the requisite service period, which is generally the vesting period of the options, with a corresponding impact reflected in additional paid-in capital. For share-based payment awards with market conditions, such market conditions are included in the determination of the estimated grant-date fair value. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or is expected to differ, from such estimate. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expenses to be recognized in future years.

A change in any of the terms or conditions of share-based payment awards is accounted for as a modification of awards. The Company measures the incremental compensation cost of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified, based on the share price and other pertinent factors at the modification date. For vested awards, the Company recognizes incremental compensation cost in the period the modification occurred. For unvested awards, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.



## ***Fair Value of Our Ordinary Shares and Share-Based Compensation***

Before April 8, 2015, we are a private company with no quoted market prices for our ordinary shares. We therefore needed to make estimates of the fair value of our ordinary shares at various dates for the purposes of (1) determining the fair value of our ordinary shares at the date of the grant/re-measurement of share-based compensation award to our employees as one of the inputs in determining the fair value of the award and (2) at the date of issuance of convertible instruments as one of the inputs into determining the intrinsic value of the beneficial conversion feature.

The fair value of the ordinary shares and share-based compensation award granted to our employees were estimated by us, with assistance from an independent third-party appraiser. We are ultimately responsible for the determination of all amounts related to share-based compensation and the convertible instruments recorded in the consolidated financial statements.

The following table sets forth the fair value of our ordinary shares estimated at different dates during the past three fiscal years prior to our initial public offering:

<b>Date</b>	<b>Class of shares</b>	<b>Fair value</b>	<b>Purpose of valuation</b>	<b>Type of valuation</b>
April 18, 2014	Ordinary Shares	US\$ 0.0590	Share options granted as of April 18, 2014	Contemporaneous
June 29, 2014	Ordinary Shares	US\$ 0.1380	Ordinary share compensation to executives and certain directors as of June 29, 2014	Contemporaneous

In determining the fair value of our ordinary shares, we have considered the guideline prescribed by the AICPA Audit and Accounting Practice Aid, Valuation of Privately-Held Company Equity Securities Issued and Compensation, or the Practice Aid. Specifically, paragraph 16 of the Practice Aid sets forth the preferred types of valuation that should be used.

The independent third-party appraiser used the discounted cash flow, or DCF, method of the income approach to derive the fair value of our ordinary shares as of June 29, 2014. We considered the market approach and searched for public companies located in China with similar business nature and in a stage of development similar to ours. However, no companies similar to us in many aspects could be identified, and we therefore only used the results obtained from the market approach as a sanity check on the results obtained from the income approach. The determination of the fair value of our ordinary shares required complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of our ordinary shares prior to our initial public offering include:

- **Weighted average cost of capital, or WACC:** The WACCs were determined based on a consideration of such factors as risk-free rate, comparative industry risk, equity risk premium, company size and company-specific factors. The changes in WACC from 26% as of October 1, 2012 to 25% as of March 15, 2013 were primarily due to our business growth and recovery in the global capital markets and economic conditions for accelerating our development. In deriving the WACCs, which are used as the discount rates under the income approach, certain publicly traded companies in the online commerce and travel service agency business were selected for reference as our guideline companies. To reflect the operating environment in China and the general sentiment in the U.S. capital markets towards the online commerce industries, the guideline companies were selected with consideration of the following factors: (i) the guideline companies should be online services provider; and (ii) the guideline companies should either have their principal operations in China, as we operate in China, and/or are publicly listed companies in the U.S., as we plan to become a public company in the U.S. The WACC maintained at 23% over the period between April 18, 2014 and June 29, 2014
- **Discount for lack of marketability, or DLOM:** When determining the DLOM, the option-pricing method (put option) was applied to quantify the DLOM where applicable. Although it is reasonable to expect that the completion of our initial public offering will add value to our ordinary shares because we will have increased liquidity and marketability as a result of the listing of our ADSs on the Nasdaq Stock Exchange, the amount of additional value can be measured with neither precision nor certainty. The higher DLOM is used for the valuation, the lower is the determined fair value of the ordinary shares. DLOM decreased from 14% as of April 18, 2014 to 8% as of June 29, 2014 due to a shorter period to the expected initial public offering date.



The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts developed by us. The assumptions used in deriving the fair values were consistent with our business plan. However, these assumptions were inherently uncertain and highly subjective. These assumptions include: no material changes in the existing political, legal and economic conditions in China; no major changes in the tax rates applicable to our subsidiaries and consolidated affiliated entities in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts. The risk associated with achieving our forecasts were assessed in selecting the appropriate discount rates of 23%.

The fair value of our ordinary shares stayed at around US\$0.06 per share over the period between July 1, 2012 and April 18, 2014 due to the following reasons:

- basically the company's business operated as usual but without real break-through over the period;
- revenue growth rate was lower when the management expected more intense competition in the group buying business; and
- recovery in the global capital markets and economic conditions resulted in lower market required return on investing in business similar to ours. Accordingly, the discount rate used for our valuation under the income approach reduced.

The fair value of our ordinary shares decreased from US\$0.0611 per share as of March 15, 2013 to US\$0.0590 per share as of April 18, 2014, primarily due to the following reasons:

- the company's 2013 actual performance missed budget; and
- profitability declined due to intense competition in the market resulting in our lower bargaining power to counterparties in negotiating the take rate (margin) and higher operating expenses (e.g. sales commission cost).
- The fair value of our ordinary shares increased from US\$0.0590 per share as of April 18, 2014 to US\$0.1380 per share as of June 29, 2014, primarily due to the following reasons:
- Financial performance was expected to be better in the long run when the company's business was expected to receive contribution from the new operation of WoWo Merchant App;
- We have engaged an underwriter to start preparing for an IPO and accordingly;
- DLOM was lower due to a shorter period to the expected initial public offering date; and
- There is a higher chance that an IPO leading to automatic conversion of the preference shares into ordinary shares would occur.

1. We believe that the increase in the fair value of our ordinary shares from US\$0.1380 as of June 29, 2014, to US\$0.56 per share, or US\$10.00 per ADS, the initial public offering price divided by the number of ordinary shares represented by each ADS, was primarily attributable to the following factors:

- Upon the completion of our initial public offering, all of our preferred shares would be converted into ordinary shares and thus forego the rights and the corresponding values attributable to the preferred shares. In other words, part of the value of the preferred shares will be transferred to the holders of ordinary shares, resulting in the ordinary share value to be increased without increasing our total enterprise value.

By assuming all of our preferred shares have been converted to ordinary shares, our ordinary share value would have been increased to US\$0.21 (or by US\$0.07).

- We achieved a better financial performance since July 1, 2014 than our previous estimate, as the result of significant, unexpected revenue growth attributed by the following factors: (i) We upgraded our WoWo Merchant Apps in July 2014. As a result, the number of our online merchant clients increased from 92,002 in the second quarter to 119,310 in the fourth quarter of 2014, an increase of 25% on a semi-annual basis or 50% on an annual basis. The number of our newly signed-up paying merchant clients also increased from 2,103 in the second quarter to 3,135 in the fourth quarter, an increase of 50% on a semi-annual basis. (ii) We launched a new strategic business initiative in fourth quarter of 2014 by opening our platform to third party service providers' clients in various vertical sectors. They have enrolled in this new business and have brought more than 10,000 new merchants to our platform. (iii) Within the fourth quarter of 2014, we achieved major milestones in the development and set up clear launching schedule for two new products with features that would enable our merchant clients to open and manage their online stores using their own smart phones and enable craftsmen to open and manage their online stores on our platform. These two new products would be launched at the end of first quarter 2015. Once launched, we believe these products will further increase the number of merchants signed up to our platform, many of which could ultimately become paying merchants. Our conversion rate from online merchants to paying merchants has been approximately 12.4%. (iv) Within the fourth quarter of 2014, we completed the addition of three new value-added services into our product roadmap. These new services would attract more merchants and further improve paying merchant conversion rate. We believe both growing merchant base and improvement of paying-merchant conversion rate will further drive our revenue growth.
- Based on the above strategic initiatives and strong operating performance in terms of revenues, number of merchants and other factors in the fourth quarter of 2014, we expect our performance in 2015 and beyond to be better than originally forecasted in the June 29, 2014 valuation. This results in an additional increment in the ordinary shares value to US\$0.36 (or by US\$0.15).
- Taking into account the improvement of our business performance and indications of the success of our business plan, the company-specific risk factor used in estimating a market participant's required rate of return for investing in our shares was reduced by 4%, reflecting the decrease in the perceived risk in achieving our financial forecasts. Therefore, the overall discount rate was lowered from 23% as of June 29, 2014 to 19% as of January 30, 2015. We believe this factor would increase the fair value of our ordinary shares to US\$0.52 (or by US\$0.16).
- The imminent launch of our initial public offering will provide us with additional capital and will enhance our ability to access capital markets to grow our business, raise our profile in China and provide our shareholders with greater liquidity. In particular, the 8% discount for lack of marketability previously used to value our ordinary shares as of June 29, 2014 would no longer be applicable after our initial public offering. We believe this factor would increase the fair value of our ordinary shares to US\$0.56 (or by US\$0.04).

The increase in the fair value of our ordinary shares since July 1, 2014 was in line with the overall appreciation in the market value of the shares of China-based publicly-traded companies, as a result of the further improved market sentiment towards those companies since July 1, 2014. For instance, the NASDAQ China Index increased by 9.5% from June 30, 2014 to January 30, 2015.

Furthermore, in accordance with Chapter 10 of the Practice Aid, we believe that the ultimate IPO price itself is generally not likely to be a reasonable estimate of the fair value of our ordinary shares as of various dates before our initial public offering, as increases in enterprise value may be attributed partly to (i) changes in the amount and relative timing of future net cash flows (estimated and actual) as the enterprise successfully executes its business plan and responds to risks and opportunities in the market, and (ii) a reduction in the risk associated with achieving projected results.

Since our initial public offering in April 2015, the determination of the fair value of the ordinary shares has been based on the market price of our ADSs, each representing 18 ordinary shares, traded on the NASDAQ Global Market.

The following table sets forth certain information regarding the share options granted to our employees at different dates in the past three fiscal years prior to December 31, 2016:

Grant/Re-measurement date	Type of award	Number of award	Exercise price	Fair value of ordinary share			Type of valuation
				Intrinsic value			
April 18, 2014	Employee share option	11,445,500	US\$ 0.01	US\$ 0.00590	US\$ 560,830	Contemporaneous	
July 27, 2015	Employee restricted share units	28,841,700	N/A	US\$ 0.2650	US\$ 7,643,050	Contemporaneous	
July 1, 2016	Share option granted to executives	11,633,400	US\$ 0.20	US\$ 0.1196	US\$ -	Contemporaneous	
July 1, 2016	Share option granted to staffs	20,395,300	US\$ 0.20	US\$ 0.0945	US\$ -	Contemporaneous	
July 1, 2016	Employee restricted share units	10,430,000	N/A	US\$ 0.1328	US\$ 1,385,202	Contemporaneous	

In determining the value of share options to employees, we have used the binomial option-pricing model, with assistance from the independent third-party appraiser. Under this option pricing model, certain assumptions, including risk-free interest rate, the contractual life of the options, the expected dividends on the underlying ordinary shares, the expected volatility of the price of the underlying shares for the contractual life of the options, the post-vesting forfeiture rate and the expected exercise multiple are required in order to determine the fair value of our options. Changes in these assumptions could significantly affect the fair value of share options and hence the amount of compensation expense we recognize in our consolidated financial statements.

In determining the value of ordinary shares to directors and executives, we have considered the fair value of the ordinary share and the expected dividend paid-out ratio. Because we have no plan to pay dividend, the fair value of the share granted to directors and executives is the fair value of the ordinary share.

The key assumptions used in valuation of the employee share options are summarized in the following table:

	Grants on April 18, 2014	Modification on September 1, 2015	Grants on July 1, 2016
Risk-free rate of return <sup>(1)</sup>	1.8%	0.47% - 0.88%	1.46%
Contractual life of the options <sup>(2)</sup>	5.0 years	5.0 years	10 years
Volatility <sup>(3)</sup>	58%	60% - 65%	54.78%
Expected dividend yield <sup>(4)</sup>	0%	0%	0%
Post-vesting forfeiture rate <sup>(5)</sup>	9.0%/40.0%	N/A	36.1%
Exercise multiple <sup>(6)</sup>	3x / 2x	3x / 2x	3x / 2x

(1) The risk-free rate of return is based on the yield curve of USD China Sovereign Bonds as of the valuation dates as extracted from Bloomberg.

(2) The contractual life of the options is based on the option grant letter.

(3) The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of listed guideline companies over a period comparable to the contractual life of the options.

(4) We estimate the dividend yield based on our expected dividend policy over the expected term of the options.

(5) The post vesting forfeiture rate applied to options granted to general staff was based on our historical statistical data. 0% was applied to options granted to executive management with expectation that the executive management will not quit from the company over the contractual life of the options.

(6) Exercise multiple is the ratio of fair value of share over the exercise price at the time which the option will be exercised,

estimated based on a consideration of research study regarding exercise pattern from historical statistical data. A multiple of three was used for the executive management and a multiple of two was used for general staff.

## ***Loyalty program***

In 2016, we launched a customer loyalty program to certain qualified customers, who can earn customer credits from purchases if their annual spending with us exceeds RMB10 million. The customers can redeem the earned credits for gift merchandise, and we account for such credits by recording a liability and corresponding selling expenses for the estimated incremental cost of outstanding credits earned that are expected to be redeemed.

During 2016, we negotiated settlement of earned loyalty credits with 13 of our customers in our ordinary shares. As part of the settlement, we agreed to issue 4.42 million of our ordinary shares, and recognized US\$1,377,503 in paid-in capital and selling expenses based on the grant date fair value of the ordinary shares. We are not legally obligated, or expects to continue, redemption of the credits for the ordinary shares in the future

## **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is originally effective for the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period for public entities; and, annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 for all other entities. ASU 2015-14, Revenue from Contracts with Customers, defers the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period for public entities; and, annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019 for all other entities. Early adoption is permitted to the original effective date. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11 (“ASU 2015-11”), Inventory (Topic 330): Simplifying the Measurement of Inventory. Under ASU 2015-11, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for public entities for fiscal years and interim periods within those fiscal years, as well as for all other entities for fiscal years beginning after December 15, 2016; and, interim periods within annual periods beginning after December 15, 2017 for all other entities. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 (“ASU 2015-17”), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented for public entities; and, annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 for all other entities. Early adoption is permitted. After the adoption of ASU 2015-17, all the current deferred tax assets will be reclassified as noncurrent deferred tax asset on the consolidated balance sheet.

In January 2016, the FASB issued ASU No. 2016-01 (“ASU 2016-01”), Financial Instruments. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years; and for all other entities, are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after

December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), Leases. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public business entities for annual reporting periods and interim periods within those years beginning after December 15, 2018; and, annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020 for all other entities. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), (“ASU 2016-08”) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. This guidance will be effective at the same date as the adoption of ASU 2014-09. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 (“ASU 2016-09”), Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 involves several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and accounting for forfeitures. Some of the areas apply only to nonpublic entities. In terms of accounting for forfeitures, companies will have to elect whether to account for forfeitures of share-based payments by (1) recognizing forfeitures of awards as they occur (e.g., when an award does not vest because the employee leaves the company) or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. We will make an election at the entity level using a modified retrospective transition method, with a cumulative-effect adjustment to retained earnings. ASU 2016-09 is effective for public business entities for annual reporting period and interim periods within those years beginning after December 15, 2016; and, annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 for all other entities. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In January 2017, FASB has issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods for public entities; and, annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019 for all other entities.

In January 2017, the FASB issued ASU No. 2017-04 (“ASU 2017-04”), Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. This standard is effective for public business entities in the first quarter of 2020 and for all other entities in the first quarter of 2022. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05 (“ASU 2017-05”), Other income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). ASU 2017-05 clarifies the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The update is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period; and, annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019 for all other entities. We are currently evaluating the impact of adopting this standard on its consolidated financial statements.

## Results of Operations

The following table presents selected financial data from our consolidated statements of operations for the periods indicated. Because we had a significant restructuring and a switch of strategic emphasis during 2015, the historical operation of our group buying business was categorized as a discontinued operation. In addition, we only acquired our current continuing B2B business in 2015. As a result, the period-to-period comparisons of our results of operations can only provide very limited insight into the development of our operation and thus should not be relied upon as indicative of our future performance.

	<b>For the year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>(US\$ in thousands)</b>			
<b>Consolidated statements of operations data</b>			
<b>Revenues</b>			
Related parties	—	542	10,078
Third parties	—	10,935	63,123
Cost of revenues	—	(13,220)	(72,857)
<b>Gross (loss) / profit</b>	<b>—</b>	<b>(1,743)</b>	<b>344</b>
<b>Operating expenses:</b>			
Selling and marketing	—	(5,360)	(20,405)
General and administrative	(4,323)	(12,911)	(7,531)
Impairment of goodwill	—	(85,935)	—
<b>Total operating expenses</b>	<b>(4,323)</b>	<b>(104,206)</b>	<b>(27,936)</b>
<b>Loss from operations</b>	<b>(4,323)</b>	<b>(105,949)</b>	<b>(27,592)</b>
Interest income	—	7	26
Other income, net	—	46	39
Loss before provision for income tax	(4,323)	(105,896)	(27,527)
Provision for income tax benefits	—	1,250	2,234
<b>Loss from continuing operations</b>	<b>(4,323)</b>	<b>(104,646)</b>	<b>(25,293)</b>
<b>Discontinued operations:</b>			
(Loss)/Income from discontinued operations	(39,546)	11,076	—
Provision for income tax benefits	—	—	—
(Loss)/Income from discontinued operations, net of tax	(39,546)	11,076	—
<b>Net loss</b>	<b>(43,869)</b>	<b>(93,570)</b>	<b>(25,293)</b>

### *Year ended December 31, 2016 compared to Year ended December 31, 2015*

#### *Revenues*

Our revenues increased by 538% from US\$11.5 million for the year ended December 31, 2015 to US\$73.2 million for the year ended December 31, 2016. This increase was primarily due to our rapid growth of business in 2016 as well as the fact the our revenue number for the fiscal year 2015 only contains the financial results since June 2015 when we acquired JMU HK.

#### *Cost of revenues*

Our cost of revenues increased by 451% from US\$13.2 million for the year ended December 31, 2015 to US\$72.9 million for the year ended December 31, 2016. This increase was primarily due to our rapid growth of business and generally in line with the increase of revenue. The increase rate of cost of revenues was lower than the increase rate of revenues because we started to charge margins in our direct sales business in 2016 while we maintained zero margin to attract customers in 2015.

#### *Total operating expenses*

Our total operating expenses decreased by 73% from US\$104.2 million for the year ended December 31, 2015 to

US\$27.9 million for the year ended December 31, 2016. This change was primarily because we did not incur impairment of goodwill in 2016 as compared to a charge of US\$85.9 million in 2015.

*Selling and marketing expenses*

Our selling and marketing expenses increased by 278% from US\$5.4 million for the year ended December 31, 2015 to US\$20.4 million for the year ended December 31, 2016. This increase was due to (i) a US\$4.3 million expense related to loyalty program, which we started in 2016, (ii) share based compensation increased by US\$0.7 million, and (iii) an increase of US\$8.6 million of amortization of intangible assets in 2016 compared to 2015. Our salaries to sales personnel also increased US\$1.5 million mainly because the salary expense for fiscal year 2015 only contains the expense incurred since June 2015 when we acquired JMU HK while the number for fiscal year 2016 covers the whole year 2016.

### *General and administrative expenses*

Our general and administrative expenses decreased by 42% from US\$12.9 million for the year ended December 31, 2015 to US\$7.5 million for the year ended December 31, 2016, primarily because the fee paid to professional service providers decreased US\$4.1 million compared to 2015 when we had our initial public offering and several major corporate transaction.

### *Loss*

As a result of the foregoing, our loss from continuing operations decreased by 76% from US\$104.6 million for the year ended December 31, 2015 to US\$25.3 million for the year ended December 31, 2016.

### ***Year ended December 31, 2015 compared to Year ended December 31, 2014***

#### *Revenues*

Our revenues for the year ended December 31, 2015 were US\$11.5 million, which consisted primarily of revenues from our direct sales, as we did not charge service fees for third-party sellers on our marketplace in 2015. We did not record any revenue for the year ended December 31, 2014 as we did not acquire our current continuing B2B business until 2015.

#### *Cost of revenues*

Our cost of revenues for the year ended December 31, 2015 was US\$13.2 million, which consisted primarily of our procurement costs. We did not incur any cost of revenues for the year ended December 31, 2014 as we did not acquire our current continuing B2B business until 2015.

#### *Total operating expenses*

Our total operating expenses increased from US\$4.3 million for the year ended December 31, 2014 to US\$104.2 million for the year ended December 31, 2015. This increase was due to the fact that our expenses for the year ended December 31, 2014 consisted primarily of share-based compensation, whereas our operating expenses for the year ended December 31, 2015 also included impairment of goodwill as well as expenses related to our B2B business. We had US\$85.9 million of impairment of goodwill in 2015.

#### *Selling and marketing expenses*

Our selling and marketing expenses increased from nil for the year ended December 31, 2014 to US\$5.4 million for the year ended December 31, 2015. We did not incur selling and marketing expenses for the year ended December 31, 2014 as we only acquired our current continuing B2B business in 2015, whereas we started to incur advertising and marketing promotion expenses related to our B2B platform for the year ended December 31, 2015.

### *General and administrative expenses*

Our general and administrative expenses increased by 199% from US\$4.3 million for the year ended December 31, 2014 to US\$12.9 million for the year ended December 31, 2015, primarily due to the increase in fees paid to professionals related to our acquisition of JMU and the divestment of our group buying business.

### *Loss from continuing operations*

As a result of the foregoing, our loss from continuing operations increased from US\$4.3 million for the year ended December 31, 2014, to US\$104.6 million for the year ended December 31, 2015.

### **B. Liquidity and Capital Resources.**

We had US\$1.6 million, US\$11.2 million and US\$2.6 million in cash and cash equivalents as of December 31, 2014, 2015 and 2016, respectively.

The following table sets forth a summary of our cash and cash equivalents inside and outside of the PRC as of December 31, 2016:

	<b><u>Total cash and cash equivalents</u></b> <b>(US\$ in thousands)</b>
Our VIE	1,924
PRC entities other than Our VIE	13
Entities inside of the PRC	<u>1,937</u>
Entities outside of the PRC	<u>668</u>
<b>Total</b>	<b><u><u>2,605</u></u></b>

We have incurred net losses and experienced negative cash flow from operating activities since our inception. Our net losses were US\$43.9 million, US\$93.6 million and US\$25.3 million for the years ended December 31, 2014, 2015 and 2016, respectively, and our net cash used in operating activities in these three years was US\$32.0 million, US\$33.5 million and US\$5.8 million, respectively. We believe that our current cash balance, anticipated cash flows from operations, and the financial support obtained from Ms. Xiaoxia Zhu and Ms. Huimin Wang, two of our principal shareholders, will be sufficient to meet our anticipated capital needs for the next 12 months from the date of this annual report. These commitments are guaranteed by certain assets from Ms. Zhu and Ms. Wang. The funds, if and when called, shall be provided in cash as equity investment in our Company. This commitment is for an amount subject to our actual deficiency without any limitation. Ms. Huimin Wang made an interest-free loan to us in the amount of to RMB40 million (US\$5.8 million) in April 2016 and Ms. Xiaoxia Zhu made another loans to us in the amount of RMB10 million (US\$1.2 million), RMB15 million (S\$1.9 million) and RMB35 million (US\$5.1 million) in January, March and May 2017, respectively to enable us to meet the working capital requirements to fund our daily operations.

If there is any change in business conditions or other future developments, including any investments we may decide to pursue, and if our existing cash balance and commitment from Ms. Xiaoxia Zhu and Ms. Huimin Wang are insufficient to meet our requirements, we may also seek to sell additional equity securities or debt securities or borrow from lending institutions. Financing may be unavailable in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

In the future, we may rely on dividends and other distributions on equity paid by our wholly-owned PRC subsidiary for our cash and financing requirements. There are potential restrictions on the dividends and other distributions by our PRC subsidiary. For instance, if our wholly-owned PRC subsidiary incurs debt on its own behalf in the future, the instruments governing the debt could restrict its ability to pay dividends or make other distributions to us. The PRC tax authorities may require us to adjust our taxable income under the contractual arrangements that Our WFOE currently has in place with Our VIE in a way that could adversely affect the latter's ability to pay dividends and other distributions to us. In addition, under PRC laws and regulations, our wholly-owned PRC subsidiary, as a wholly foreign-owned enterprise in the PRC, may only pay dividends out of its accumulated profits. Wholly foreign-owned enterprises such as our wholly-owned PRC subsidiary are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund a statutory reserve fund, until the aggregate amount of such fund reaches 50% of their respective registered capital. At their discretion, wholly foreign-owned enterprises may allocate a portion of their after-tax profits to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. See "Item 3. Key Information—D. Risk factors—Risks Related to Our

Corporate Structure and Dependence on our Contractual Arrangements with our Affiliates—We rely principally on dividends and other distributions on equity paid by our PRC and Hong Kong subsidiaries to fund any cash and financing requirements we might have. Any limitation on the ability of our PRC and Hong Kong subsidiaries to pay dividends to us could have an adverse effect on our ability to conduct our business”. In addition, our investment made as registered capital and additional paid in capital of Our WFOE and Our VIE are also subject to restrictions in their distribution and transfer according to the laws and regulations in China. Owing to the above, Our WFOE and Our VIE in China are restricted in their ability to transfer their net assets to us in terms of cash dividends, loans or advances. As of December 31, 2016, the restricted net assets of Our WFOE and Our VIE, which represents registered capital and additional paid-in capital, was US\$28.2 million. Any limitation on the ability of Our WFOE or our Hong Kong subsidiary, JMU HK, to pay dividends or make other distributions to us could 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.

We are an offshore holding company conducting our operations in China through Our WFOE and Our VIE. The functional and reporting currency of our company is US Dollars. The financial records of Our WFOE and Our VIE located in the PRC are maintained in Renminbi. Fluctuation in the exchange rate between the Renminbi and other foreign currency may affect our ability to inject capital in Our WFOE and Our VIE. We could lend to Our WFOE and Our VIE, or we could make additional capital contributions to Our WFOE, or we could establish new PRC subsidiary and make capital contributions to these new PRC subsidiary, or we could acquire offshore entities with business operations in China in an offshore transaction. Most of these uses are subject to PRC regulations and approvals. For example, loans by us to Our WFOE to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If we decide to finance Our WFOE 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 unlikely to lend money to Our VIE and its subsidiaries which are PRC domestic companies. See “Item 3. Key Information—D. Risk factors—Risks Related to Our Corporate Structure and Dependence on our Contractual Arrangements with our Affiliates—PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion could limit our use of the proceeds we receive from our initial public offering to fund our expansion or operations”.

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

	<b>For the year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>(US\$ in thousands)</b>		
Net cash used in operating activities	(31,960)	(33,531)	(5,826)
Net cash used in investing activities	(586)	(11,896)	(2,581)
Net cash provided by financing activities	33,768	54,883	—
Effect of exchange rate changes	5	50	(140)
increase/(decrease) in cash	<u>1,227</u>	<u>9,506</u>	<u>(8,547)</u>
Cash at the beginning of the period	419	1,646	11,152
Cash at the end of the period	<u>1,646</u>	<u>11,152</u>	<u>2,605</u>

*Net cash used in operating activities*

Net cash used in operating activities was US\$5.8 million for the year ended December 31, 2016. We had net loss of US\$25.3 million. The principal items accounting for the difference between our net loss and our net cash used in operating activities were a decrease of prepaid expenses and other current assets of US\$15.8 million, depreciation and amortization of US\$8.9 million and a decrease of accounts receivable of US\$1.9 million, partially offset by a decrease of accrued expenses and other current liabilities of US\$8.6 million, income tax benefits of US\$2.2 million and a decrease of accounts and notes payable of US\$1.4 million.

Net cash used in operating activities for the year ended December 31, 2015 was US\$33.5 million, of which US\$10.7 million was used in continuing operations and US\$22.8 million in discontinued operations. The principal items accounting for the difference between our net loss from continuing operations of US\$104.6 million and our net cash used in continuing operations of US\$10.7 million were impairment of goodwill of US\$85.9 million, an increase of accrued expenses and other current liabilities of US\$16.7 million, an increase of amount due from related parties of US\$8.5 million and depreciation and amortization of US\$4.9 million, partially offset by a decrease of prepaid expenses and other current assets of US\$18.5 million, an increase in accounts receivable of US\$3.0 million and an increase of amounts due to related parties of US\$2.7 million.

Net cash used in operating activities was US\$32.0 million for the year ended December 31, 2014. We had net loss of US\$43.9 million, which was further increased by a decrease in advance to customers of US\$5.4 million and a decrease in accrued expenses and other current liabilities of US\$3.1 million as we transition from group buy business where we received advance from customers to online mall operations; offset in part by an increase in accounts payable of US\$9.7 million and a decrease in prepaid expenses and other current assets by US\$2.3 million.

### *Net cash used in investing activities*

Net cash used in investing activities was US\$2.6 million for the year ended December 31, 2016, including US\$1.9 million for purchase of property and equipment and US\$0.7 million payment for investment.

Net cash used in investing activities was US\$11.9 million for the year ended December 31, 2015, including US\$9.9 million used in connection with continuing operations and US\$2.0 million used in connection with discontinued operations, consisting primarily of payment for acquisition of business of \$9.8 million.

Net cash used in investing activities was US\$0.6 million for the year ended December 31, 2014, consisting primarily of purchase of property and equipment.

### *Net cash provided by financing activities*

Financing activities did not provide us with any cash for the year ended December 31, 2016.

Net cash provided by financing activities was US\$54.9 million for the year ended December 31, 2015 including US\$52.9 million provided in connection with continuing operations and US\$2.0 million provided in connection with discontinued operations. We received net proceeds of approximately US\$37.3 million from our initial public offering, including the exercise of the over-allotment option by the underwriters, after deducting underwriting discounts and commissions and other expenses. We also received US\$15.0 million in a private placement transaction with our co-chairperson Mr. Maodong Xu.

Net cash provided by financing activities was US\$33.8 million for the year ended December 31, 2014, consisted primarily of an increase in amounts due to related parties of US\$36.3 million in relation to a shareholder loan from our Chairman and CEO, Mr. Xu, offset in part by repayments of borrowing of US\$1.7 million.

### **Capital Expenditures**

We made capital expenditures of US\$1.9 million for the year ended December 31, 2016, consisting of the purchase of property and equipment.

We made capital expenditures of US\$0.1 million for the year ended December 31, 2015, consisting of the purchase of property and equipment.

We made capital expenditures of US\$0.6 million for the year ended December 31, 2014, consisting of the purchase of property and equipment.

Going forward, as more third-party sellers utilize our online markets and more customers and third-party sellers download and utilize our app, our server demand will increase and we intend to purchase additional servers to service our expanded networking.

### **Inflation**

Since our inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2014, 2015 and 2016 were increases of 1.5%, and 1.6% and 2.1%, respectively. Although we have not been materially affected by inflation in the past, we have experienced and expect to continue to experience upward pressure on our operating expenses.

## Withholding Tax Obligation

Pursuant to PRC individual income tax laws, when a corporation purchases equity interest from individuals, the individuals are obligated to pay individual income tax based on 20% of the capital gain from the transaction with the corporation as the withholding agent. We have purchased equity interests of certain entities from individual sellers. There is a possibility that if individual sellers fail to meet their income tax obligations, the tax authority may require us, as the withholding agent, to pay the taxes for the sellers. Based on the information currently available, we are unable to make a reasonable estimate of the related liability due to the uncertainty related to the outcome and amount of payment and relating penalty and interest.

### C. Research and development, patents and licenses, etc.

Please refer to Item 4B “Information on the Company—Business Overview—Technology” and “—Intellectual Property.”

### D. Trend information.

Other than as described elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our revenue, income from continuing operations, profitability, liquidity or capital resources, or that would cause our reported financial information not necessarily to be indicative of future operation results or financial condition.

### E. Off-balance sheet arrangements.

Save for the contingent withholding tax obligation disclosed above and commitments disclosed below, we do not currently have any outstanding off-balance sheet arrangements or commitments. We have no plans to enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or commitments.

### F. Tabular Disclosure of Contractual obligations.

The following table sets forth our contractual obligations as of December 31, 2016:

	Payment Due by Period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
	(US\$ in thousands)				
Operating Lease Commitments	21,160	1,819	3,203	3,056	13,082
Investment Commitments*	2,160	—	—	—	2,160
Total	23,320	1,819	3,203	3,056	15,242

\* In May 2016, Our VIE completed its acquisition of 10% equity interest in Cold Chain Link Global (Shanghai) Logistic Co., Ltd. The contractual investment amount is RMB30.0 million (US\$2.9 million). As of December 31, 2016, Our VIE have paid RMB5.0 million (US\$0.7 million). The remaining payment obligation is due no later than March 9, 2045.

## Item 6. Directors, Senior Management and Employees

### A. Directors and senior management.

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

Directors and Executive Officers	Age	Position/Title
Xiaoxia Zhu	46	Co-Chairperson of the Board of Directors, Chief Executive Officer
Maodong Xu	48	Co-Chairperson of the Board of Directors
Jianguang Wu	42	Director

Huimin Wang	60	Director
Feng Pan	38	Director
Liyun Cao	46	Director
Tianruo (Robert) Pu	48	Independent Director
Tony C. Luh	52	Independent Director
Min Zhou	52	Independent Director
Gang Yu	57	Independent Director
Frank Zhigang Zhao	52	Chief Financial Officer

*Ms. Xiaoxia Zhu* has served as the co-chairperson of our board of directors since June 2015. She was our co-chief executive officer from June 2015 to September 2015, and has served as our chief executive officer since then. Ms. Zhu has over 21 years of experiences on Chinese hotels and restaurant management and the internet startups. In 2013, Ms. Zhu, Ms. Huimin Wang and over 40 leading catering and hotel brands across China, jointly founded JMU. Ms. Zhu is also the vice chairwoman of China Hotel Association. From 1998 to current, Ms. Zhu founded and served as chief executive officer and chairwoman of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. where she successfully expanded its business operations across multiple regions and brands to become what is now among China's top 100 catering enterprises.

*Mr. Maodong Xu* has served as the co-chairperson of our board of directors since June 2015 and the chairman of our board of directors from December 2010 to June 2015. Mr. Xu also served as our chief executive officer from December 2010 to June 2015. Mr. Xu is the founder of Welink Information Technology Co., Ltd., a leading wireless advertising service company in China. Between 2006 and 2008, Mr. Xu served as a senior vice president of Focus Media Limited after Focus Media acquired Dotad Media Limited, a China-based wireless advertising service provider founded by Mr. Xu in 2005. Mr. Xu was also the founder and CEO of Qilu Supermarket, one of the largest chain supermarkets in Shandong province in late 1990s. Mr. Xu received a bachelor's degree from Wuhan University of Technology in 1990.

*Mr. Jianguang Wu* has been our director since August 2011. Mr. Wu also served as our co-chief executive officer from June 2015 to September 2015, and executive president from November 2013 to June 2015. Before that, Mr. Wu was our chief technology officer from September 2011 to November 2013. Between 2008 and 2011, he served as the Executive Vice President of Welink Information Technology Co., Ltd. Between 2007 and 2008, Mr. Wu served as the Executive Vice President of Focus Media Limited. In 2005, Mr. Wu founded Beijing Mingzhi Unlimited Information Technology Co., Ltd., and served as the Chief Technology Officer until 2007. In 2004, Mr. Wu founded Beijing eTone Infotech Co., Ltd., and served as the Chief Technology Officer until 2005. In addition to his current role in our company, Mr. Wu has been the chairman of the board of director of Beijing Yunzong Internet Information Technology Limited since September 2015. Mr. Wu received a bachelor's degree from Beijing Union University School of Information Engineering in 2000.

*Ms. Huimin Wang* has served as our director since June 2015. Ms. Wang is a cofounder of JMU HK, and she is also the founder of "Xiao Nan Guo" or the "Shanghai Min" brand. Besides her directorship in our Company, at present, Ms. Wang is also the chairperson of Xiao Nan Guo Holdings Limited and chairperson of the board of directors of Xiao Nan Guo Restaurants Holdings Limited, a company listed on the Stock Exchange of Hong Kong (code: 3666.HK). Ms. Huimin Wang is also the Vice Chairman of China Cuisine Association, China Hotel Association and World Association of Chinese Cuisine.

*Mr. Feng Pan* has served as our director and chief strategic officer since June 2015. Mr. Pan has worked in the field of supply chain management, the internet, and strategy consulting over the past 14 years. Mr. Pan joined JMU as executive vice president in 2013, and he participated in the design of JMU's business model and its strategic investment. From 2005 to 2013, he served as the president of Influence Education Training Group and Influence Education Technology Company where he provided strategic planning for various leading corporations and several public companies. Mr. Pan worked at Midea Group from 2003 to 2005 and Hisense Kelon Group from 2001 to 2003.

*Ms. Liyun Cao* has served as our director since June 2015. Ms. Cao has served as vice president of JMU HK and president of JMU HK's Supply Unit since 2014, and was responsible for the operation and management of its B2B business. From 2001 to 2014, Ms. Cao worked at Zhejiang Sunward Fishery Restaurant Group Co., Ltd. in various roles including Operations Manager of the Jiangsu and Shanghai Districts. In 2012, she was promoted and has served as a director and vice president of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. for two years.

*Mr. Tianruo (Robert) Pu* has served as our independent director since April 2015. Mr. Pu has also served as the chief financial officer of Zhaopin Limited, a NYSE listed company, since January 2016 and a director of Renren Inc., a NYSE listed company since December 2016. Previously, Mr. Pu served as a director of UTStarcom Holdings Corporation, a NASDAQ listed company, from November 2011 to August 2014 and its Chief Financial Officer from October 2012 to August 2014. Mr. Pu served as the Chief Financial Officer of China Nuokang Biopharmaceutical Inc., a NASDAQ listed company, from September 2008 to June 2012. Prior to Nuokang Biopharmaceutical Inc., Mr. Pu was Chief Financial Officer of Global Data Solutions, a Chinese information technology services company, from June 2006 to August 2008. Prior to Global Data Solutions, Mr. Pu had gained various accounting and finance experiences in both China and the United States. Mr. Pu received an MBA degree from Northwestern University's Kellogg School of Management, a Master of Science degree in accounting from the University of Illinois and a Bachelor of Arts degree in English from China Foreign Affairs College.



*Mr. Tony C. Luh* has served as our independent director since April 2015. At present, Tony is a venture partner for DFJ DragonFund and Yifang Ventures. Mr. Luh was an independent board director for Pansoft Inc. between 2008 and 2012. Mr. Luh served as a General Partner and Greater China President for the Westly Group between 2011 and 2014. Before joining the Westly Group, Mr. Luh was a Founding Partner and Managing Director at DFJ DragonFund from 2006 to 2011. Mr. Luh is also one of the Founder and Managing Director at Dragon Venture, which he co-founded in 1999. Before Dragon Venture, Mr. Luh was a senior executive at InfoWave Communications from 1997 to 1999. Mr. Luh has over 20 years of experience in capital markets, sales, strategic alliances and business development and has accumulated public investment expertise in sectors ranging from information technology to high volume manufacturing in Asia.

*Mr. Min Zhou* has served as our independent director since April 2015. At present, Mr. Zhou is the executive director and executive president of Beijing Enterprises Water Group Limited serving since 2013. Between 2008 and 2012, Mr. Zhou served as an executive director and vice president of Beijing Enterprises Water Group Limited. Mr. Zhou served as the director and chief financial officer of Beijing Zhongkecheng Environment Protection Group Limited from 2004 to 2008. Previously, Mr. Zhou served as a director and chief financial officer of Sichuan Zhongkecheng Environment Protection Stock Co., Ltd. from 2001 to 2004. Mr. Zhou served as the Chairman of Beijing Jingsheng Investment Co., Ltd. from 1989 to 2001. Prior to that, Mr. Zhou worked at Industrial and Commercial Bank of China—Zhejiang Yongkang Branch from 1985 to 1989 and worked at the People’s Bank of China—Zhejiang Yongkang Branch from 1980 to 1985. Mr. Zhou received an EMBA degree from Tsinghua University.

*Dr. Gang Yu* has served as our director since October 2016. Dr. Yu is the co-founder and executive chairman of New Peak Group, and has served as the co-chairman of Zall Group Limited, a company listed on the Hong Kong Stock Exchange, since August 2015. During August 2008 to July 2015 prior to founding New Peak Group, he was the co-founder and chairman of Yihaodian, a leading ecommerce company in China. Prior to this role, Dr. Yu served as vice president, worldwide procurement at Dell Inc. between September 2006 and August 2007 and vice president, worldwide supply chain at Amazon.com between July 2004 and August 2006. Dr. Yu received Bachelor of Science degree from Wuhan University, Master of Science degree from Cornell University and Ph. D. from the Wharton School of the University of Pennsylvania.

*Mr. Frank Zhigang Zhao* has served as our chief financial officer since June 2014. Mr. Zhao has over two decades of experience in financial and accounting management with auditing firms and public companies. Prior to joining us, Mr. Zhao was the chief financial officer of Borqs International Limited, from 2012 to 2014. Mr. Zhao was the chief financial officer of Simcere Pharmaceutical Group, from 2006 to 2011. From 2005 to 2006, Mr. Zhao worked as the chief financial officer of Sun New Media Inc. From 2003 to 2005, Mr. Zhao worked at FARO Technologies, Inc. as a financial controller. Mr. Zhao received his bachelor’s degree in economics from Peking University and MBA degree from University of Hartford.

## **B. Compensation.**

### **Compensation of Directors and Executive Officers**

In 2016, we paid an aggregate of approximately RMB2.56 million (US\$0.39 million) in cash as salaries and fees to our senior executives, officers and directors named in this annual report. Other than salaries, fees and share incentives, we do not otherwise provide pension, retirement or similar benefits to our officers and directors.

### ***Share Incentive Plan***

We adopted our share incentive plan in 2011 and amended it in 2015 to attract and retain the best available personnel, provide additional incentives to our employees, directors and consultants, and promote the success of our business. The amended and restated 2011 share incentive plan provides for the grant of options, restricted shares and other share-based awards, collectively referred to as “awards.” Our board of directors has authorized the issuance of ordinary shares of up to 15% of the issued and outstanding share capital of our company from time to time.

*Plan Administration.* Our compensation committee will administer the amended and restated 2011 share incentive plan. The committee determines the participants to receive awards, the type and number of awards to be granted, and the terms and conditions of each award grant.



*Award Agreements.* Awards granted under our amended and restated 2011 share incentive plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award. Unless specifically approved by our board of directors, the purchase price per share of an option shall not be less than 100% of the fair market value of the shares on the date of grant.

*Transfer Restrictions.* The right of a grantee in an award granted under our amended and restated 2011 share incentive plan may not be transferred in any manner by the grantee other than by will or the laws of descent and, with limited exceptions, may be exercised during the lifetime of the grantee only by the grantee.

*Option Exercise.* The term of options granted under the amended and restated 2011 share incentive plan may not exceed ten years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of ordinary shares underlying the option may include cash, check or other cash-equivalent, ordinary shares, consideration received by us in a cashless exercise, or any combination of the foregoing methods of payment.

*Acceleration upon a Change of Control.* If a change of control of our company occurs, (i) the compensation committee may determine that any outstanding unexercisable, unvested or lapsable awards shall automatically be deemed exercisable, vested and not subject to lapse immediately prior to the event triggering the change of control and (ii) the compensation committee may cancel such awards for fair value, provide for the issuance of substitute awards or provide that for a period of at least 15 days prior to the event triggering the change of control, such options shall be exercisable and that upon the occurrence of the change of control, such options shall terminate and be of no further force and effect.

*Termination and Amendment.* Unless terminated earlier, our share incentive plan will expire on February 1, 2021. Our board of directors has the authority to amend or terminate our share incentive plan subject to shareholder approval to the extent necessary to comply with applicable laws. Shareholders' approval is required for any amendment to the amended and restated 2011 share incentive plan that increases the number of ordinary shares available under the amended and restated 2011 share incentive plan or changes the maximum number of shares for which awards may be granted to any participant. Additionally, a participant's consent is required to diminish any of the rights of the participant under any award previously granted to such participant.

The following table summarizes, as of March 31, 2017, the outstanding options granted to our executive officers, directors, and other individuals as a group under our amended and restated 2011 share incentive plan.

Name	Common shares underlying options awarded/Restricted		Exercise price (US\$/share)	Date of grant	Date of expiration
	Share Units				
Feng Pan	*		0.2	2016/7/1	2016/7/1
	* (1)		—	2016/7/1	2016/7/1
Liyun Cao	*		0.2	2016/7/1	2016/7/1
	* (1)		—	2016/7/1	2016/7/1
Other Individuals as a Group				from 2011/2/1	from 2017/9/1
	54,571,332		from 0 to 0.2	to 2016/7/1	to 2016/7/1
		* (1)	—	2016/7/1	2016/7/1
<b>Total</b>	<b>71,468,032</b>				

\* Less than one percent of our total outstanding share capital.

(1) restricted share units

## C. Board Practices.

### Duties of Directors

Under Cayman Islands law, our directors owe certain fiduciary duties to our company, including duties of loyalty, to act honestly, and to act in what they consider in good faith to be in our best interests. Our directors also have a duty to exercise

the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our third amended and restated memorandum and articles of association. We have the right to seek damages if a duty owed by our directors is breached.

The powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- issuing authorized but unissued shares;
- declaring dividends and distributions;
- exercising the borrowing powers of our company and mortgaging the property of our company;
- approving the transfer of shares of our company, including the registering of such shares; and
- exercising any other powers conferred by the shareholders' meetings or under our third amended and restated memorandum and articles of association.

### **Terms of Directors and Executive Officers**

We have ten directors on our board of directors, four of whom are independent directors. Any director on our board may be removed by way of an ordinary resolution of shareholders. Any vacancies on our board of directors or additions to the existing board of directors can be filled by the affirmative vote of a majority of the remaining directors. The shareholders may also by ordinary resolution elect any person to be a director either to fill a casual vacancy or as an addition to the existing board of directors. The directors are divided into three different classes, namely Class I Directors, Class II Directors and Class III Directors.

Any director appointed to fill a casual vacancy shall hold office for the remaining term of the director in whose place he is appointed and shall be eligible for re-election at the expiry of the said term. Any director appointed as an additional to the existing board of directors shall be designated a class in accordance with the third amended and restated articles of association, shall hold office until the expiry of the term of the class for which said director is designated and shall then be eligible for re-election.

At the first annual general meeting after the adoption of the third amended and restated articles of association, all Class II Directors shall retire from office and be eligible for re-election. At the second annual general meeting after the adoption of the third amended and restated articles of association, all Class III Directors shall retire from office and be eligible for re-election. At the third annual general meeting after the adoption of the third amended and restated articles of association, all Class I Directors shall retire from office and be eligible for re-election. Currently Class I includes Mr. Maodong Xu, Mr. Tianruo (Robert) Pu and Ms. Xiaoxia Zhu; Class II includes Mr. Jianguang Wu, Mr. Feng Pan and Mr. Gang Yu; and Class III includes Mr. Tony C. Luh, Mr. Min Zhou, Ms. Huimin Wang and Ms. Liyun Cao.

At each subsequent annual general meeting after the third annual general meeting after the adoption of the third amended and restated articles of association, one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one third) shall retire from office by rotation. A retiring director shall be eligible for re-election. The directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any director who wishes to retire and not to offer himself for re-election. Any further directors so to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

For the avoidance of doubt, every director shall be subject to retirement in accordance with the third amended and restated articles of association at least once every three years.

If the number of directors is changed, any increase or decrease shall be apportioned among the classes of directors so as to maintain the size of the three classes as nearly equal as possible, and any director added to a class as a result of an increase in the board size shall hold office for a term that shall coincide with the remaining term of that class.



## **Grounds for Vacating a Director**

The office of a director shall be vacated if the director:

- resigns his office by notice in writing delivered to us or tendered at a meeting of the board of directors;
- becomes of unsound mind or dies;
- without special leave of absence from the board of directors, is absent from meetings of the board of directors for six consecutive months and the board of directors resolves that his office be vacated;
- becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- is prohibited by law from being a director; or
- ceases to be a director by virtue of any provisions of Cayman Islands law or is removed from office pursuant to the third amended and restated articles of association.

All of our executive officers are appointed by and serve at the discretion of our board of directors. Our executive officers are elected by and may be removed by a majority vote of our board of directors.

## **Board Committees**

Our board of directors has established an audit committee and a compensation committee.

### ***Audit Committee***

Our audit committee consists of Tianruo (Robert) Pu, Tony C. Luh and Min Zhou. We have determined that all the members of our audit committee satisfy the “independence” requirements of Rule 10A-3 under the Exchange Act and Nasdaq Marketplace Rule 5605(c)(2)(A) and that Tianruo (Robert) Pu is an audit committee financial expert as defined in the instructions to Item 16A of the Form 20-F. Tianruo (Robert) Pu serves as the chairperson of the audit committee.

The audit committee oversees our accounting and financial reporting processes and the audits of our consolidated financial statements. Our audit committee is responsible for, among other things:

- selecting the independent auditor;
- pre-approving auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor’s report describing the auditing firm’s internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors and all relationships between the independent auditor and our company;
- setting clear hiring policies for employees and former employees of the independent auditors;
- reviewing with the independent auditor any audit problems or difficulties and management’s response;
- reviewing and approving all related party transactions on an ongoing basis;
- reviewing and discussing the annual audited consolidated financial statements with management and the independent auditor;

- reviewing and discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our consolidated financial statements;
- discussing policies with respect to risk assessment and risk management with management, internal auditors and the independent auditor;
- timely reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

### ***Compensation Committee***

Our compensation committee consists of Min Zhou, Tianruo (Robert) Pu and Tony C. Luh. We have determined that all the members of our compensation committee satisfy the “independence” requirements of Rule 5605(d) of Nasdaq Stock Market Marketplace Rules. Min Zhou serves as the chairperson of the compensation committee.

Our compensation committee is responsible for, among other things:

- reviewing and approving our overall compensation policies;
- reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer, evaluating our Chief Executive Officer’s performance in light of those goals and objectives, reporting the results of such evaluation to the board of directors, and determining our Chief Executive Officer’s compensation level based on this evaluation;
- determining the compensation level of our other executive officers;
- making recommendations to the board of directors with respect to our incentive-compensation plan and equity-based compensation plans;
- administering our equity-based compensation plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from

time to time.

## **Corporate Governance**

Our board of directors has adopted a code of business conduct and ethics, which is applicable to all of our directors, officers and employees. We have made our code of business conduct and ethics publicly available on our website.

In addition, our board of directors has adopted a set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to our board's structure, procedures and committees. The guidelines are not intended to change or interpret any law, or our third amended and restated memorandum and articles of association.

## **Remuneration and Borrowing**

The directors may determine remuneration to be paid to the directors. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

## **Qualification**

There is no requirement for our directors to own any shares in our company in order for them to qualify as a director.

## **Employment Agreements**

We have entered into employment agreements with each of our executive officers. We may terminate an executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a conviction or plea of guilty to a felony, willful misconduct to our detriment or a failure to perform agreed duties. We may also terminate an executive officer's employment under certain conditions, including, but not limited to, incapacity or disability of the officer, by a one-month prior written notice. An executive officer may terminate his or her employment with us for cause, at any time for certain reasons, or by a one-month prior written notice.

Our executive officers have also agreed not to engage in any activities that compete with us, or to directly or indirect solicit the services of our employees, during employment or for a period of two years after termination of employment. Each executive officer has agreed to hold in strict confidence any confidential information or trade secrets of our company. Each executive officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our company as well as all material corporate and business policies and procedures of our company.

### **D. Employees.**

The number of our employees decreased significantly after we acquired our B2B business and disposed of our group buy and B2C businesses, and few of our employees as of December 31, 2014, were still working for our company as of December 31, 2015.

As of December 31, 2016, we had a total of 291 employees, consisting of 92 in sales, 66 in marketing, 35 in research and development, and 98 staff members in administrative and management departments. We had a total of 285 employees as of December 31, 2015 and 3,194 employees as of December 31, 2014.

The remuneration package of our employees includes salary, sales commissions and employee share option programs. In accordance with applicable regulations in China, we participate in a number of social insurance schemes, namely, a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan, a maternity insurance and a housing reserve fund for the benefit of all of our employees. We have not experienced any material labor disputes or disputes with the labor department of the PRC government since our inception.

## E. Share Ownership.

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares as of March 31, 2017 (unless otherwise indicated) by:

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

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting power or investment power with respect to securities. The number of ordinary shares beneficially owned including ordinary shares such person has the right to acquire within 60 days after March 31, 2017. Such shares, however, are not deemed to be outstanding and beneficially owned for the purpose of computing the percentage ownership of any other shareholder. Percentage of ordinary shares is based on 1,475,645,946, the total number of ordinary shares outstanding as of March 31, 2017 (excluding 562,724 ordinary shares in the form of ADSs that are reserved for issuance upon the exercise of outstanding options)

	Ordinary Shares Beneficially Owned	
	Number	Percentage (%)
<b>Directors and Executive Officers:</b>		
Maodong Xu <sup>(1)</sup>	322,342,368	21.8%
Xiaoxia Zhu <sup>(2)</sup>	245,485,086	16.6%
Jianguang Wu	*	*
Huimin Wang <sup>(3)</sup>	291,015,012	19.7%
Feng Pan <sup>(4)</sup>	111,213,418	7.5%
Liyun Cao	—	—
Tianruo (Robert) Pu <sup>(5)</sup>	—	—
Tony C. Luh <sup>(6)</sup>	—	—
Min Zhou <sup>(7)</sup>	—	—
Gang Yu <sup>(8)</sup>	—	—
Frank Zhigang Zhao	*	*
Directors and executive officers as a group	980,428,424	66.4%
<b>Principal Shareholders:</b>		
New Field Worldwide Limited <sup>(9)</sup>	294,410,503	20.0%
Zhejiang Sunward Fishery Restaurant Group Share Co., Ltd. <sup>(10)</sup>	158,219,624	10.7%
Extensive Power Limited <sup>(11)</sup>	149,100,132	10.1%
Moonlight Vista Limited <sup>(12)</sup>	141,914,880	9.6%
Shanghai Zhongju Investment Management Center (limited Partnership) <sup>(13)</sup>	111,213,418	7.5%
Markland (Hong Kong) Investment Limited <sup>(14)</sup>	87,265,462	5.9%
CDH Barley Limited <sup>(15)</sup>	78,362,511	5.3%

\* Less than 1% of our total outstanding shares.

\*\* The address of our directors (except Mr. Tianruo (Robert) Pu, Mr. Tony C. Luh, Mr. Min Zhou and Mr. Guang Yu) and executive officers is North Guoquan Road 1688 Long, No. 75, Building A8, 6F, Yangpu District, Shanghai 200438, People's Republic of China.

(1) representing (i) 294,410,503 ordinary shares owned by New Field Worldwide Limited, a BVI company wholly owned by Maodong Xu, the registered address of which is Trinity Chambers, P.O. Box 4301, Road Town, Tortola, British Virgin Islands, (ii) 931,865 ordinary shares owned by Link Crossing Limited, a BVI company wholly owned by Maodong Xu, the registered address of which is Trinity Chambers, P.O. Box 4301, Road Town, Tortola, British Virgin Islands, and (iii) 27,000,000 ordinary shares owned by Estate Spring Limited, a Cayman Islands company controlled by Maodong Xu, the registered address of which is Floor 4, Willow house, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.

- (2) representing (i) 158,219,624 ordinary shares owned by Zhejiang Sunward Fishery Restaurant Group Share Co., Ltd., a PRC company controlled by Xiaoxia Zhu, the principal business address of which is No. 236, Caihong South Road, Jiangdong, Ningbo, People's Republic of China, and (ii) 87,265,462 ordinary shares owned by Markland (Hong Kong) Investment Limited, a Hong Kong company wholly owned by Xiaoxia Zhu, the principal business address of which is Flat B4, 6/F., Block B, Hankow Centre, 4A Ashley Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (3) representing (i) 149,100,132 ordinary shares owned by Extensive Power Limited, a Hong Kong company controlled by Huimin Wang, the principal business address of which is Suites 3201-5, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, and (ii) 141,914,880 ordinary shares owned by Moonlight Vista Limited, a BVI company controlled by Huimin Wang, the principal business address of which is Suites 3201-5, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (4) representing 111,213,418 ordinary shares owned by Shanghai Zhong Ju Investment Management Center, a PRC limited liability partnership, whose general partner has irrevocably appointed Feng Pan to act on behalf of the general partner for all matters relating to Shanghai Zhong Ju Investment Management Center and has irrevocably waived the right to replace Feng Pan. The principal business address of Shanghai Zhong Ju Investment Management Center is Room 304-22, 3/FI, Building 2, No. 38 Debao Road, China (Shanghai) Pilot Free Trade Zone, People's Republic of China.

- (5) The business address of Mr. Pu is 5th Floor Shoukai Plaza, 10 Fu Rong Street, Wang Jing, Beijing, People's Republic of China.
- (6) The business address of Mr. Luh is c/o Dragon Venture, Inc., 55 East 3rd Avenue, San Mateo, CA 94401.
- (7) The business address of Mr. Zhou is c/o Beijing Enterprises Water Group Limited. Tower 3 Poly International Plaza, Zone 7 Wangjing East Park, Chaoyang District, Beijing, People's Republic of China.
- (8) The business address of Mr. Yu is Building 10, No. 115 Lane 572, Bibo Road, Pudong District, Shanghai 201203, People's Republic of China.
- (9) representing 294,410,503 ordinary shares owned by New Field Worldwide Limited, a BVI company wholly owned by Maodong Xu, the registered address of which is Trinity Chambers, P.O. Box 4301, Road Town, Tortola, British Virgin Islands
- (10) representing 158,219,624 ordinary shares owned by Zhejiang Sunward Fishery Restaurant Group Share Co., Ltd., a PRC company controlled by Xiaoxia Zhu, the principal business address of which is No. 236, Caihong South Road, Jiangdong, Ningbo, People's Republic of China.
- (11) representing 149,100,132 ordinary shares owned by Extensive Power Limited, a Hong Kong company controlled by Huimin Wang, the principal business address of which is Suites 3201-5, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong,
- (12) representing 141,914,880 ordinary shares owned by Moonlight Vista Limited, a BVI company controlled by Huimin Wang, the principal business address of which is Suites 3201-5, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (13) representing 111,213,418 ordinary shares owned by Shanghai Zhong Ju Investment Management Center, a PRC limited liability partnership. The principal business address of Shanghai Zhong Ju Investment Management Center is Room 304-22, 3/FI, Building 2, No. 38 Debao Road, China (Shanghai) Pilot Free Trade Zone, People's Republic of China.
- (14) representing 87,265,462 ordinary shares owned by Markland (Hong Kong) Investment Limited, a Hong Kong company wholly owned by Xiaoxia Zhu, the principal business address of which is Flat B4, 6/F., Block B, Hankow Centre, 4A Ashley Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (15) representing 78,362,511 ordinary shares owned by CDH Barley Limited, a British Virgin Islands company 100% beneficially owned by CDH Venture Partners II, L.P. CDH Venture GP II Company Limited, a Cayman Islands exempted limited liability company, is the general partner of CDH Venture Partners II, L.P. and has the power to direct CDH Venture Partners II, L.P. as to the voting and disposition of shares directly and indirectly held by CDH Venture Partners II, L.P. The registered address of CDH Barley Limited is Kingston Chambers, P.O. Box 173, Road Town, British Virgin Islands. Such information is solely based the Schedule 13G/A filed by CDH Barley Limited, CDH Venture Partners II, L.P. and CDH Venture GP II Company Limited with Securities and Exchange Commission on February 6, 2017.

As of March 31, 2017, we had 1,476,208,670 ordinary shares issued and outstanding. To our knowledge, we had only one record shareholder in the United States. Citibank, N.A., depository of our ADS program, held 254,080,746 ordinary shares as of that date, representing 17.2% of our outstanding ordinary shares. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders.**

Please refer to "Item 6. Directors, Senior Management and Employees—E. Directors, Senior Management and



## **B. Related Party Transactions.**

### **Contractual Arrangements with Our Consolidated Affiliated Entities and Their Shareholders**

Due to certain restrictions under PRC law on foreign ownership of businesses engaged in internet businesses, we conduct our operations in China principally through contractual arrangements between our wholly-owned PRC subsidiary, Shanghai Zhongming Supply Chain Management Co., Ltd., on the one hand and our consolidated affiliated entity in China, Shanghai Zhongmin Supply Chain Management Co., Ltd., and its subsidiaries and shareholders on the other. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure”.

### **Agreements with our Directors and Officers**

#### ***Share Issuance to Mr. Maodong Xu***

We and Mr. Maodong Xu, the co-chairperson of our board, entered into a subscription agreement in June 2015 and an amendment to this agreement in September 2015. Pursuant to this subscription agreement, as amended, we issued 27,000,000 ordinary shares to Estate Spring Limited, a Cayman Islands company beneficially owned by Mr. Xu, in September 2015 for a total subscription price of US\$15.0 million.

#### ***Lock-up Agreement with Mr. Maodong Xu, Ms. Xiaoxia Zhu and Ms. Huimin Wang***

In connection with the share issuance to Mr. Maodong Xu in 2015 and the acquisition of JMU HK, we entered into a lock-up agreement in June 2015 with each of Mr. Xu, Ms. Xiaoxia Zhu and Ms. Huimin Wang, pursuant to which each of Mr. Xu, Ms. Zhu and Ms. Wang agreed not to directly or indirectly dispose of the number of the ordinary shares beneficially owned by them on June 8, 2015, the closing date of the acquisition of JMU, without the prior written consent of our board of directors. Additionally, Mr. Xu also agreed not to directly or indirectly dispose of the ordinary shares he acquired under the subscription agreement described above. The restrictions on one-third of the total ordinary shares under the lock-up agreement will be removed on each anniversary of June 8, 2015.

#### ***Registration Rights Agreement***

In connection with acquisition of JMU HK, we entered into a registration rights agreement with former shareholders of JMU HK and entities beneficially owned by Mr. Maodong Xu, pursuant to which we agreed to provide these former shareholders and Mr. Xu with certain registration rights in respect of our ordinary shares held by them.

Upon receipt of a written request from the holders of 10% of the registrable securities then outstanding requesting us effect a registration under the Securities Act covering all of part of the shares held by them, we shall, as soon as is practicable, but in no event not later than ninety days after receipt of such written request, file with the SEC, and use our reasonable best efforts to cause to be declared effective, a registration statement, or a shelf registration statement. However, that we shall not be obligated to effect any such registration if the aggregate price (net of any underwriters' discounts or commissions) of the sale of shares relating to such registration is less than \$10,000,000.

If, at any time, we file a registration statement with the SEC, holders of registration rights under this agreement will be entitled, subject to certain exceptions, to exercise “piggyback” registration rights requiring us to include in any such registration that number of shares held by them, subject to certain prescribed limitations provided in the registration rights agreement.

We may, on a limited number of occasions, and in certain prescribed circumstances, delay the filing or effectiveness of any registration statement required to be filed pursuant to the registration rights agreement.

### **Related Party Loans and Other Payments**

In April 2016, Ms. Huimin Wang, our director, provided us an interest free loan of RMB40 million through Xiao Nan Guo (Group) Co., Ltd., an entity controlled by her. We had repaid such loan in 2016.



In January, March and May 2017, Ms. Xiaoxia Zhu, our Chief Executive Officer and Co-Chairperson of the Board, provided us loans of RMB10 million (US\$1.2 million), RMB 15 million (US\$1.9 million) and RMB35 million (US\$5.1 million), respectively.

Chung So Si Fong Dessert Limited, Hong Kong Sunward Fishery Restaurant Management Co., Ltd., Nanjing Jiangdong Sunward Fishery Restaurant Co., Ltd., Nanjing Xinzijin Sunward Fishery Restaurant Co., Ltd., Ningbo Yinzhou Sunward Logistics Co., Ltd., Nanjing Yongji Sunward Fishery Restaurant Co., Ltd., Shanghai Congshao Dessert Co., Ltd., Shanghai Congshao Restaurant Management Co., Ltd., Shanghai Putuo Sunward Restaurant Co., Ltd., Shenzhen Congshao Restaurant Management Co., Ltd., Tianjin Congshao Restaurant Management Co., Ltd. and Zhejiang Zhonggangjumei Supply Chain Management Co., Ltd., all of which are controlled by Ms. Xiaoxia Zhu, purchased products on our B2B platform. We recorded revenues of US\$1.7 million from these entities in 2016, and as of December 31, 2016 the total amount due from them was US\$182 thousand.

Xiao Nan Guo Holdings Limited, Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd., Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. and WM Ming Hotel, all of which are controlled by Ms. Huimin Wang, purchased products on our B2B platform. We recorded revenues of US\$8.4 million from these entities in 2016, and as of December 31, 2016 the total amount due from them was US\$7 thousand.

Shanghai MIN Hongshi Trading Co., Ltd., entity controlled by Ms. Huimin Wang, sold products to other customers via our B2B platform. As of December 31, 2016, the amount due from the entity was US\$24 thousand.

Chung So Si Fong Dessert Limited, Nanjing Jiangdong Sunward Fishery Restaurant Co., Ltd., Nanjing Xinzijin Sunward Fishery Restaurant Co., Ltd., Nanjing Yongji Sunward Fishery Restaurant Co., Ltd., Shanghai Congshao Dessert Co., Ltd., Shanghai Congshao Restaurant Management Co., Ltd., Shenzhen Congshao Restaurant Management Co., Ltd., Tianjin Congshao Restaurant Management Co., Ltd., Wuhan Congshao Restaurant Management Co., Ltd. and Hong Kong Sunward Fishery Restaurant Management Co., Ltd., all of which are controlled by Ms. Xiaoxia Zhu, purchased products from other suppliers via our B2B platform. As of December 31, 2016, the amount due to them was US\$802 thousand.

Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. and WM Ming Hotel, all of which are controlled by Ms. Huimin Wang, purchased products from other suppliers via our B2B platform. As of December 31, 2016, the amount advance from them was US\$909 thousand.

Cold Chain Link Global (Shanghai) Logistic Co., Ltd., an entity under the significant influence of the Company, provided logistics services for our online direct sales. We recorded service fee charged by this entity of US\$170 thousand in 2016.

We also rented offices from Xiao Nan Guo (Group) Co., Ltd., which is controlled by Ms. Huimin Wang. We recorded rental expenses of US\$218 thousand to this entity in 2016 and the rental agreement expired in June 2016.

Except for the loans borrowed from Ms. Xiaoxia Zhu, all the amounts due to or from related parties are unsecured, non-interest bearing and payable on demand.

## **Employment Agreements**

See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Employment Agreements”.

## **Share Options**

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Compensation of Directors and Executive Officers—Share Incentive Plan”.

## **C. Interests of experts and counsel.**

Not applicable.



## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information.**

Please refer to Item 18 “Financial Statements” for our audited consolidated financial statements filed as part of this annual report.

### **Legal Proceedings**

We are currently not a party to any material legal or administrative proceedings and are not aware of any pending or threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

### **Dividend Policy**

Since our inception, we have not declared or paid any dividends on our ordinary shares. We have no present plan to pay any dividends on our ordinary shares in the foreseeable future. We intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Any future determination to pay dividends will be made at the discretion of our board of directors subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. In addition, our shareholders may declare a dividend at a general meeting of our company. Our board of directors’ decision to declare and pay dividends may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, the amount of distributions, if any, received by us from our PRC subsidiary, our general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

We are a holding company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we will rely on dividends distributed by Our WFOE. Certain payments from our PRC subsidiary to us are subject to PRC taxes, such as withholding income tax. In addition, regulations in China currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. Our PRC subsidiary is required to set aside at least 10% of its after-tax profit based on PRC accounting standards every year to a statutory common reserve fund until the aggregate amount of such reserve fund reaches 50% of the registered capital of such subsidiary. Such statutory reserves are not distributable as loans, advances or cash dividends. Our PRC subsidiary may set aside a certain amount of its after-tax profits to other funds at its discretion. These reserve funds can only be used for specific purposes and are not transferable to the company’s parent in the form of loans, advances or dividends. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure and Dependence on our Contractual Arrangements with our Affiliates—We rely principally on dividends and other distributions on equity paid by our PRC and Hong Kong subsidiaries to fund any cash and financing requirements we might have. Any limitation on the ability of our PRC and Hong Kong subsidiaries to pay dividends to us could have an adverse effect on our ability to conduct our business”.

### **B. Significant Changes.**

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

## **Item 9. The Offer and Listing.**

### **A. Offer and listing details.**

Our ADSs, each representing 18 of our ordinary shares, are listed on the NASDAQ Global Market under the symbol “JMU”. Trading in our ADSs commenced on April 8, 2015.



The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Market for the period indicated.

	<b>Price per ADS (US\$)</b>	
	<b>High</b>	<b>Low</b>
	US\$	US\$
<b>Annual Highs and Lows</b>		
2015 (from April 8, 2015)	13.00	4.11
2016	6.20	2.90
<b>Quarterly Highs and Lows</b>		
Second Quarter 2015 (from April 8, 2015)	13.00	8.00
Third Quarter 2015	9.17	4.11
Fourth Quarter 2015	7.90	4.76
First Quarter 2016	6.20	3.83
Second Quarter 2016	4.58	3.11
Third Quarter 2016	6.00	3.02
Fourth Quarter 2016	4.00	2.90
First Quarter 2017	3.83	2.64
<b>Monthly Highs and Lows</b>		
December 2016	4.00	2.90
January 2017	3.83	2.87
February 2017	3.28	2.80
March 2017	3.25	2.64
April 2017	2.80	2.06
May 2017 (through May 19, 2017)	2.68	1.82

**B. Plan of distribution.**

Not applicable.

**C. Markets.**

Our ADSs are listed on The NASDAQ Global Market under the symbol “JMU”. Each ADS represents 18 ordinary shares.

**D. Selling shareholders**

Not applicable.

**E. Dilution.**

Not applicable.

**F. Expenses of the issue.**

Not applicable.

**Item 10. Additional Information.**

**A. Share capital.**

Not applicable.

**B. Memorandum and articles of association.**

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, and the Companies Law (2016 Revision), as amended, of the Cayman Islands, which is referred to as the Companies Law below. The following are summaries of material provisions of our third amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

## **Registered Office and Objects**

Our registered office in the Cayman Islands is at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law, as amended from time to time, or any other law of the Cayman Islands.

## **Board of Directors**

A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of our company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of our company or of any third party. The directors may receive such remuneration as our board may from time to time determine. There is no age limit requirement with respect to the retirement or non-retirement of a director. See also “Item 6. Directors, Senior Management and Employees — C. Board Practices.”

## **Ordinary Shares**

### *General*

All of our outstanding ordinary shares are fully paid and non-assessable. Our ordinary shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares. Our third amended and restated memorandum and articles of association do not permit us to issue bearer shares.

### *Dividends*

The holders of our ordinary shares are entitled to such dividends as may be declared by our shareholders or board of directors subject to the Companies Law and to the third amended and restated articles of association. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or our share premium account, and provided further that a dividend may not be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

### *Voting Rights*

Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any one shareholder present in person or by proxy.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of votes attached to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of at least two-thirds of votes cast attached to the ordinary shares in a meeting. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association.

### *General Meetings of Shareholders*

Shareholders' meetings may be convened by a majority of our board of directors or our chairman. Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our third amended and restated articles of association allow our shareholders holding shares representing in aggregate not less than 30% of our voting share capital in issue, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our third amended and restated articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. Advance notice of at least ten clear days is required for the convening of our annual general shareholders' meeting and any other general meeting of our

shareholders. A quorum required for a meeting of shareholders consists of at least two shareholders present or by proxy, representing not less than one-third in nominal value of the total issued voting shares in our company.

### *Transfer of Ordinary Shares*

Subject to the restrictions contained in our third amended and restated articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists. Our board of directors may also decline to register any transfer of any ordinary share unless (a) the instrument of transfer is lodged with us or such other place at which the register of members is kept in accordance with Cayman Islands law, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (b) the instrument of transfer is in respect of only one class of shares; (c) the instrument of transfer is properly stamped, if required; (d) the ordinary shares transferred are fully paid and free of any lien in favor of us; (e) a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as the board may from time to time require is paid to us in respect thereof; and (f) the transfer is not to more than four joint holders.

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

The registration of transfers may, after compliance with any notice requirement of the Nasdaq Global Market, be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our directors may determine.

### *Liquidation*

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

### *Calls on Ordinary Shares and Forfeiture of Ordinary Shares*

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

### *Share Repurchases*

We are empowered under our third amended and restated memorandum of association to purchase our shares subject to the Companies Law and our third amended and restated articles of association. Our third amended and restated articles of association provide that this power is exercisable by our board of directors in such manner, upon such terms and subject to such conditions as it in its absolute discretion thinks fit subject to the Companies Law and, where applicable, the rules of the Nasdaq Global Market and the applicable regulatory authority.

### *Variations of Rights of Shares*

If at any time our share capital is divided into different classes of shares, all or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. Consequently, the rights of any class of shares cannot be detrimentally altered without a majority of two-thirds of the vote of all of the shares in that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights will not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.



### *Inspection of Books and Records*

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, our third amended and restated articles of association provide our shareholders with the right to inspect our list of shareholders and to receive annual audited financial statements.

### *Changes in Capital*

We may from time to time by ordinary resolution: (a) increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe; (b) consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares; (c) sub-divide our existing shares, or any of them into shares of a smaller amount; or (d) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled. We may by special resolution reduce our share capital or any capital redemption reserve in any manner permitted by law.

### *Register of Members*

Under Cayman Islands law, we must keep a register of members and there should be entered therein: (a) the names and addresses of the members, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member; (b) the date on which the name of any person was entered on the register as a member; and (c) the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e. the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members should be deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members. Upon the closing of this offering, the register of members should be immediately updated to record and give effect to the issue of shares by us to the Depositary (or its nominee) as the depositary. Once our register of members has been updated, the shareholders recorded in the register of members will be deemed to have legal title to the shares set against their name.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Cayman Islands Grand Court for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

### **Differences in Corporate Law**

The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent statutory enactments in England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States.

### *Mergers and Similar Arrangements*

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association.

The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the Grand Court of the Cayman Islands can be expected to approve the arrangement if it determines that (a) the statutory provisions as to the required majority vote have been met; (b) the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class; (c) the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and (d) the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

When a takeover offer is made and accepted by holders of 90% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

#### *Shareholders' Suits*

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when (a) a company acts or proposes to act illegally or ultra vires; (b) the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and (c) those who control the company are perpetrating a "fraud on the minority".

#### *Indemnification of Directors and Executive Officers and Limitation of Liability*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our third amended and restated memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty or fraud which may attach to such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we intend to enter into indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in our third amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### *Anti-Takeover Provisions in the Memorandum and Articles of Association*

Some provisions of our third amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders.

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

#### *Directors' Fiduciary Duties*

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

In addition, directors of a Cayman Islands company must not place themselves in a position in which there is a conflict between their duty to the company and their personal interests. However, this obligation may be varied by the company's articles of association, which may permit a director to vote on a matter in which he has a personal interest provided that he has disclosed that nature of his interest to the board. Our third amended and restated memorandum and articles of association provides that a director with an interest (direct or indirect) in a contract or arrangement or proposed contract or arrangement with the company must declare the nature of his interest at the meeting of the board of directors at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the board of directors after he is or has become so interested.

A general notice may be given at a meeting of the board of directors to the effect that (i) the director is a member/officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice in writing be made with that company or firm; or (ii) he is to be regarded as interested in any contract or arrangement which may after the date of the notice in writing to the board of directors be made with a specified person who is connected with him, will be deemed sufficient declaration of interest. Following the disclosure being made pursuant to our third amended and restated memorandum and articles of association and subject to any separate requirement for Audit Committee approval under applicable law or the listing rules of Nasdaq, and unless disqualified by the chairman of the relevant board meeting, a director may vote in respect of any contract or arrangement in which such director is interested and may be counted in the quorum at such meeting. However, even if a director discloses his interest and is therefore permitted to vote, he must still comply with his duty to act bona fide in the best interest of our company.

In comparison, under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good

faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

### *Shareholder Proposals*

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

There are no statutory requirements under Cayman Islands law allowing our shareholders to requisition a shareholders' meeting. However, under our third amended and restated articles of association, on the requisition of shareholders representing not less than 30% of the voting rights entitled to vote at general meetings, the board shall convene an extraordinary general meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings. However, our third amended and restated articles of association require us to call such meetings every year.

### *Cumulative Voting*

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, our third amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

### *Removal of Directors*

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our third amended and restated articles of association, directors may be removed by an ordinary resolution of shareholders.

### *Transactions with Interested Shareholders*

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation or bylaws that is approved by its shareholders, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

#### *Dissolution; Winding Up*

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law of the Cayman Islands and our third amended and restated articles of association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

#### *Variation of Rights of Shares*

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our third amended and restated articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

#### *Amendment of Governing Documents*

Under the Delaware General Corporation Law, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote, and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under Cayman Islands law, our third amended and restated memorandum and articles of association may only be amended by a special resolution of our shareholders.

#### *Rights of Non-Resident or Foreign Shareholders*

There are no limitations imposed by our third amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our third amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

#### *Directors' Power to Issue Shares*

Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

### **C. Material contracts.**

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



## **D. Exchange controls.**

### **Regulations on Foreign Exchange**

#### ***Foreign Exchange Regulation***

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

In August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and cannot be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital cannot be changed without SAFE's approval, and such RMB capital cannot in any case be used to repay RMB loans if the proceeds of such loans have not been used. Furthermore, SAFE promulgated Circular 59 in November 2010, which tightens the regulation over settlement of net proceeds from overseas offerings, such as our initial public offering, and requires, among other things, the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents or otherwise approved by our board. Violations of these SAFE regulations could result in severe monetary or other penalties, including confiscation of earnings derived from such violation activities, a fine of up to 30% of the RMB funds converted from the foreign invested funds or in the case of a severe violation, a fine ranging from 30% to 100% of the RMB funds converted from the foreign-invested funds.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity could be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC must be conducted by way of registration and banks must process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

#### ***SAFE Circular 37***

In July 2014, SAFE issued SAFE Circular 37, which supersedes SAFE Circular 75, and requires that PRC citizens or residents must register with the relevant local SAFE branch before making capital contribution to any offshore entity directly established or indirectly controlled by that PRC citizen or resident for the purpose of investment or financing and with onshore or offshore assets or equity interests legally owned by that PRC citizen or resident. In addition, the SAFE registrations are required to be updated with local SAFE branch with respect to that offshore special purpose company in connection with the change of its basic information, such as its company name, business term, shareholding by individual PRC citizens or residents, merger, or division and, with respect to the individual PRC citizens or residents in case of any increases or decreases of capital in that offshore special purpose company, or share transfers or swaps by the individual PRC citizens or residents



Our PRC citizen or resident beneficial owners are applying for registrations under SAFE Circular 37 with the relevant local counterpart of SAFE in Beijing. However, we might not be fully informed of the identities of all our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with SAFE Circular 37 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents have complied with and will in the future make or obtain any applicable registrations or approvals required by SAFE Circular 37 or other related regulations. Failure to comply with the required SAFE registration and updating requirements described above could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—A failure by our shareholders or beneficial owners who are PRC citizens or residents in China to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition".

### ***Employee Stock Option Plans***

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, replacing earlier rules promulgated in March 2007, to regulate the foreign exchange administration of PRC citizens and non-PRC citizens who reside in the PRC for a continuous period of not less than one year, with a few exceptions, who participate in stock incentive plans of overseas publicly-listed companies. Pursuant to these rules, these individuals who participate in any stock incentive plan of an overseas publicly-listed company, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in the PRC for a continuous period of not less than one year and have been granted options are subject to these regulations. Failure to complete such SAFE registrations could subject us and these employees to fines and other legal sanctions. The State Administration of Taxation has issued certain circulars concerning employee share options or restricted shares. Under these circulars, our employees working in the PRC who exercise share options or are granted restricted shares would be subject to PRC individual income tax. Our PRC subsidiary have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we could face sanctions imposed by the tax authorities or other PRC government authorities. In addition, under the SAFE Circular 37 effective from July 2014, the individual PRC citizens or residents who are directors, supervisors, senior management or other employees of an enterprise in the PRC that is directly or indirectly controlled by an overseas non-listed special purpose company and participate in any stock incentive plan of such non-listed special purpose company, can submit relevant materials to the relevant local SAFE branch for the foreign exchange registration before the exercise of the share option. However, as a newly implemented regulation, specific terms of SAFE Circular 37 remain subject to interpretation and application by SAFE.

See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens could subject such employees or us to fines and legal or administrative sanctions".

### ***Foreign Exchange Administration Applicable to Direct Investment***

In February 2015, SAFE further simplified and improved the policies of Foreign Exchange Administration Applicable To Direct Investment, two administrative examination and approval items, i.e. verification and approval of foreign exchange registration under domestic direct investment, and verification and approval of foreign exchange registration under overseas direct investment, shall be abolished. Instead, banks shall, in accordance with this Notice and the Operating Guidelines for Foreign Exchange Services under Direct Investment, directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment. The SAFE and its branches will then conduct indirect regulation of Foreign Exchange Registration of Direct Investment via banks. Pursuant to these rules, foreign investors can directly invest into PRC entities without prior verification and approval of foreign exchange registration from SAFE.

## ***Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises***

In March 2015, SAFE reformed the administrative approach regarding the settlement of the foreign exchange capitals of foreign-invested enterprises. Foreign-invested enterprises will be allowed to settle their foreign exchange capitals on a discretionary basis. It means a foreign-invested enterprise may, based on its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. However, a foreign-invested enterprise shall not use its capital and the RMB funds obtained from foreign exchange settlement for any of the following purposes: (1) directly or indirectly, using the foregoing funds for expenditure beyond its business scope or expenditure prohibited by State laws and regulations; (2) directly or indirectly, using the foregoing funds for investment in securities, unless otherwise prescribed by laws and regulations; (3) directly or indirectly, using the foregoing funds for disbursing RMB entrusted loans (unless permitted under its business scope), repaying inter-corporate borrowings (including third-party advances) and repaying RMB bank loans that have been sub-lent to third parties; or (4) using the foregoing funds to pay for the expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise.

## ***Regulations on Dividend Distribution***

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

## **E. Taxation.**

*The following is a general summary of the material Cayman Islands, People's Republic of China and U.S. federal income tax consequences relevant to an investment in our ADSs and ordinary shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address U.S. state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands, the People's Republic of China and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and ordinary shares.*

### **Cayman Islands Taxation**

The Cayman Islands does not impose any withholding taxes on dividends paid to shareholders by a Cayman Islands corporation, nor does the Cayman Islands impose any other taxes on shareholders of a Cayman Islands corporation who are not themselves residents of the Cayman Islands. The Cayman Islands is not a party to any tax treaties that are applicable to any payments made to or by our company.

### **People's Republic of China Taxation**

Under the Enterprise Income Tax Law and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China, enterprises established outside of China but whose "de facto management body" is located in China are considered "resident enterprises" for PRC tax purposes. Under the applicable implementation regulations, "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. Substantially all of our management is currently based in China, and may remain in China in the future. If we are treated as a "resident enterprise" for PRC tax purposes, foreign enterprise holders of our ADSs or ordinary shares may be subject to a 10% PRC income tax upon dividends payable by us and on gains realized on their sales or other dispositions of our ADSs or ordinary shares. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Under the PRC enterprise income tax law, we could be classified as a 'resident enterprise' of China. Such classification could result in unfavorable tax consequences to us and

our non-PRC shareholders.” In addition, gains derived by our non-PRC individual shareholders from the sale of our shares and ADSs may be subject to a 20% PRC withholding tax. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to dividends realized by non-PRC individuals, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is unclear either whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise.

## Material United States Federal Income Tax Considerations

The following summary describes the material United States federal income tax consequences to United States Holders (as defined below) of the ownership of our ordinary shares and ADSs as of the date hereof. Except where noted, this summary deals only with ordinary shares and ADSs held as capital assets. As used herein, the term “United States Holder” means a beneficial owner of an ordinary share or ADS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of all of the United States federal income tax consequences that may be applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution of certain types;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ordinary shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

In addition, this discussion does not address any state, local, alternative minimum tax, or non-United States tax considerations, or the Medicare contribution tax on net investment income. Each potential investor is urged to consult its tax advisor regarding the United States federal, state, local and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, final and proposed regulations thereunder, rulings and judicial decisions as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds our ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisors.

**This summary does not contain a detailed description of all the United States federal income tax consequences that may be applicable to you in light of your particular circumstances and, except as set forth below with respect to PRC tax considerations, does not address the effects of any state, local or non-United States tax laws. If you are considering the purchase, ownership or disposition of our ordinary shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

#### *ADSs*

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

#### *Taxation of Dividends and Other Distributions on the ADSs*

Subject to the discussion under “—Passive Foreign Investment Company” below, the gross amount of any distributions on the ADSs or ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the ordinary shares, or by the depositary, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

Dividends paid to certain non-corporate United States Holders may be taxable at preferential rates applicable to long-term capital gain if we are treated as a “qualified foreign corporation”. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on ordinary shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Our ADSs are listed on the Nasdaq Global Market, and thus, pursuant to United States Treasury Department guidance, our ADSs are treated as readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our ADSs will meet the conditions required for the reduced tax rate. Since we do not expect that our ordinary shares will be listed on an established securities market, we do not believe that dividends that we pay on our ordinary shares that do not back ADSs currently meet the conditions required for these reduced tax rates. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we believe we would be eligible for the benefits of the income tax treaty between the United States and the PRC (including any protocol thereunder), or the Treaty, and if we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by ADSs or are readily tradable on an established securities market in the United States, would be eligible for the reduced rates of taxation. For discussion regarding whether we may be classified as a PRC resident enterprise, see “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”. Even if dividends would be treated as paid by a qualified foreign corporation, non-corporate United States Holders will not be eligible for reduced rates of taxation if they do not hold our ADSs or ordinary shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date or to the extent that such United States Holders elect to treat

the dividend income as “investment income” under the Code. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a passive foreign investment company, or PFIC, for United States federal income tax purpose for the taxable year in which such dividends are paid or for the preceding taxable year.

In the event that we are deemed to be a PRC resident enterprise under the PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or ordinary shares. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”. In that case, PRC withholding taxes on dividends (limited, in the case of a U.S. holder who qualifies for the benefits of the Treaty, to the extent not exceeding the applicable dividend withholding rate under the Treaty), generally will be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or ordinary shares will be treated as foreign-source income and generally will constitute passive category income. Furthermore, if you have not held the ADSs or ordinary shares for more than 15 days during the 31-day period beginning 15 days before the ex-dividend date (during which you are not protected from risk of loss), or are obligated to make payments related to the dividends, you generally will not be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ADSs or ordinary shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the ADSs or ordinary shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to calculate our earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution generally will be treated as a dividend (as discussed above).

### ***Passive Foreign Investment Company***

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the average value (determined on a quarterly basis) of our assets produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents. Furthermore, cash is categorized as a passive asset and our unbooked intangibles associated with active business activities (including goodwill) may generally be taken into account and classified as active assets. In estimating the value of our goodwill, we generally take into account our market capitalization. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

Based on our current income and assets and the value of our ADSs and ordinary shares, we do not believe that we were a PFIC for our taxable year ended December 31, 2016. With respect to our 2017 taxable year and foreseeable future taxable years, and subject to the uncertainty regarding the treatment of our contractual arrangements with our consolidated affiliated entities (discussed below), we presently do not anticipate that we will be a PFIC based upon the expected composition of our income and assets and the expected value of our assets, including goodwill (determined, in part, based on the price of our ADSs and ordinary shares). The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may be a PFIC for our 2017 taxable year or any future taxable year due to changes in our asset or income composition or the value of our assets. Because the value of our assets may be determined by reference to our market capitalization, and because the market price of our ADSs and ordinary shares may be volatile, a decrease in the price of our ADSs may also result in our becoming a PFIC. Under circumstances where the cash is not deployed for active purposes, our risk of becoming a PFIC may increase. In addition, although the law in this regard is not entirely clear, we treat Our VIE as being owned by us for United States federal income tax purposes because we control its management decisions and we are entitled to substantially all of its economic benefits and, as a result, we consolidate its results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of Our VIE for United States federal income tax purposes, we could be treated as a PFIC for taxable years ending after the date of our initial public offering.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, we generally will continue to be treated as a PFIC as to you for all succeeding taxable years during which you hold our ADSs or ordinary shares, and you will be subject to the special tax rules discussed below, except if you have made a mark-to-market election as discussed below. However, if we are a PFIC for any taxable year and subsequently cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election, or a Purging Election, to recognize gain (but not loss) in the manner described below as if your ADSs or ordinary shares had been sold on the last day of the last taxable year during which we were a PFIC. After the Purging Election, your ADSs or ordinary shares will not be treated as shares in a PFIC unless we subsequently become a PFIC. You are urged to consult your own tax advisors about the availability of this election, and whether making the election would be advisable in your particular circumstances.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a Purging Election or pledge, of ADSs or ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC with respect to you, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. A disposition of shares in, or a distribution by, any of our subsidiaries that is a PFIC will trigger the excess distributions rules described above. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election will be available to holders of ADSs as long as the ADSs are listed on the Nasdaq Global Market, which constitutes a qualified exchange, and are “regularly traded” for purposes of the mark-to-market election (for which no assurance can be given). It should also be noted that only the ADSs and not the ordinary shares, are listed on the Nasdaq Global Market. Consequently, if you are a holder of ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC.

If you make an effective mark-to-market election, you will include in each year that we are a PFIC as ordinary income

the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of your ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

A U.S. investor in a PFIC generally can mitigate the adverse consequences of the excess distribution rules described above by electing to treat the PFIC as a “qualified electing fund” under the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

We expect to file annual reports on Form 20-F with the U.S. Securities and Exchange Commission in which we will indicate whether or not we believe we were a PFIC for the relevant taxable year. We do not intend to make any other annual determination or otherwise notify you regarding our status as a PFIC for any taxable year. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

A United States Holder that owns (or is deemed to own) ordinary shares in a PFIC during any taxable year of the United States Holder may have to file an IRS Form 8621 (whether or not a mark-to-market election is or has been made) with such United States Holder’s U.S. federal income tax return and provide such other information as may be required by the U.S. Treasury Department.

**The rules dealing with PFICs and the mark-to-market election are complex and are affected by various factors in addition to those described above. Accordingly, United States Holders of our ordinary shares and ADSs should consult their own tax advisors concerning the application of the PFIC rules to our ordinary shares and ADSs under their particular circumstances.**

### *Taxation of Capital Gains*

For United States federal income tax purposes you will recognize taxable gain or loss on any sale or exchange of ADSs or ordinary shares in an amount equal to the difference between the amount realized for the ADSs or ordinary shares and your tax basis in the ADSs or ordinary shares. Subject to the discussion under “—Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Any gain or loss recognized by you generally will be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax were imposed on any gain, and if you are eligible for the benefits of the Treaty, you may elect to treat such gain as PRC source gain under the Treaty and, accordingly, you may be able to credit the PRC tax against your United States federal income tax liability. If you are not eligible for the benefits of the Treaty or you fail to make the election to treat any gain as PRC source, then you generally would not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of our ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. You will be eligible for the benefits of the Treaty if, for purposes of the Treaty, you are a resident of the United States, and you meet other factual requirements specified in the Treaty. Because qualification for the benefits of the Treaty is a fact-intensive inquiry which depends upon the particular circumstances of each investor, you are specifically urged to consult your tax advisors regarding your eligibility for the benefits of the Treaty. You are also urged to consult your tax advisor regarding the tax consequences if PRC tax is imposed on gain on a disposition of our ordinary shares or ADSs, including the availability of the foreign tax credit and the election to treat any gain as PRC source under your particular circumstances.

## ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of our ADSs or ordinary shares and the proceeds from the sale, exchange or redemption of our ADSs or ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. Backup withholding may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

## ***Foreign Asset Reporting***

Certain United States Holders who are individuals (and under proposed regulations, certain entities) may be required to report information relating to an interest in our ordinary shares or ADSs, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions) on IRS Form 8938. United States Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares or ADSs.

### **F. Dividends and paying agents.**

Not applicable.

### **G. Statement by experts.**

Not applicable.

### **H. Documents on display.**

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are not subject to the insider short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act.

All information that we have filed with the SEC can be accessed through the SEC's website at [www.sec.gov](http://www.sec.gov). This information can also be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms.

We intend to furnish the depository with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

In accordance with NASDAQ Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at [ir.ccjmu.com](http://ir.ccjmu.com). In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

### **I. Subsidiary Information.**

Not applicable.



## **Item 11. Quantitative and Qualitative Disclosures about Market Risk.**

### **Foreign Exchange Risk**

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

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

### **Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We generated interest income of nil, US\$7.4 thousand and US\$26.1 thousand for the year ended December 31, 2014, 2015 and 2016, respectively. We had cash and cash equivalents of US\$2.6 million as of December 31, 2016. Assuming such amount of cash and cash equivalents are held entirely in interest-bearing bank deposits, a hypothetical one percentage point (100 basis-point) decrease in interest rates would decrease our interest income from these interest-bearing bank deposits for one year by approximately US\$26 thousand. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

## **Item 12. Description of Securities Other than Equity Securities.**

### **A. Debt Securities.**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other Securities.**

Not applicable.

### **D. American Depositary Shares.**

## **Fees and Charges Our ADS Holders May Have to Pay**

Citibank, N.A. is our depository. The depository collects its fees for delivery and surrender of ADSs directly from investors depositing ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by

selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

An ADS holder will be required to pay the following fees under the terms of the deposit agreement:

<b>Services:</b>	<b>Fees:</b>
• Issuance of ADSs upon deposit of shares (excluding issuances as a result of distributions of shares)	Up to US\$0.05 per ADS issued
• Cancellation of ADSs	Up to US\$0.05 per ADS cancelled
• Distribution of cash dividends or other cash distributions (i.e., sale of rights and other entitlements)	Up to US\$0.05 per ADS held
• Distribution of ADSs pursuant to (i) stock dividends or other fee stock distributions, or (ii) exercise of rights to purchase additional ADSs	Up to US\$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spin-off shares)	Up to US\$0.05 per ADS held
• ADS Services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depository

#### **Fees and Other Payments Made by the Depository to Us**

The depository has agreed to reimburse us for expenses we incur that are related to the establishment and maintenance of the ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depository will reimburse us, but the amount of reimbursement available to us is not linked to the amounts of fees the depository collects from investors. We have received US\$0.8 million from the depository until the date of this annual report.

## **PART II**

#### **Item 13. Defaults, Dividend Arrearages and Delinquencies.**

None.

#### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.**

None.

#### **Item 14E Use of Proceeds.**

The following “Use of Proceeds” information relates to the registration statement on Form F-1 (File No. 333-201413) for our initial public offering of 4,000,000 ADSs, which became effective on March 31, 2015. We received net proceeds of approximately US\$37.3 million from our initial public offering.

For the period from March 31, 2015 to December 31, 2016, we used US\$30.0 million from our initial public offering for our acquisition of JMU in June 2015 and the rest in our day-to-day operations.

#### **Item 15. Controls and Procedures.**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.



Based upon that evaluation, our management has concluded that, as of December 31, 2016, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

After our acquisition of JMU HK, the scope of our internal controls over financial reporting was also enlarged significantly. We also performed a related assessment based on this new control environment and change in scope.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the framework set forth in the report Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication and (v) monitoring.

Based on that evaluation, our management concluded that these controls were not effective at December 31, 2016. We did not maintain sufficient controls over financial reporting processes due to an insufficient complement of internal personnel with a level of accounting knowledge, experience and training in the application of U.S. GAAP to ensure that the consolidated financial statements were prepared in compliance with U.S. GAAP and SEC requirements properly. This deficiency constitutes as a material weakness of our internal control over financial reporting.

### **Attestation Report of the Registered Public Accounting Firm**

This annual report does not include an attestation report of our registered public accounting firm pursuant to the transition periods established by rules of the SEC for an Emerging Growth Company.

### **Changes in Internal Control over Financial Reporting**

We identified four material weaknesses in internal control over financial reporting during our preparation of the financial statements for the year ended December 31, 2015: (i) lack of accounting personnel with appropriate knowledge of accounting principles generally accepted in the United States of America, or U.S. GAAP, (ii) lack of comprehensive accounting policies and procedures manual in accordance with U.S. GAAP, (iii) lack of risk assessment process, and (iv) lack of qualified internal control team with sufficient control experience. Since then, we have implemented the following measures to remediate these material weakness:

- We hired a reporting manager in the first half of 2016 with experience in U.S. GAAP accounting and reporting, skills and knowledge in the preparation of financial statements under the requirements of U.S. GAAP and financial reporting disclosure under the requirement of SEC rules. This reporting manager has been involved in preparing and reviewing our consolidated financial statements under U.S. GAAP;
- We hired a controlling manager responsible for internal control establishment and implementation in the first half of 2016 with years of working experience in one of big 4 accounting firms as well as rich experience in internal control, skills and knowledge in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO framework;



- We established comprehensive accounting policies and procedures manual in accordance with U.S. GAAP in the first half of 2016 which is monitored by the reporting manager on a continuing basis;
- We established, implemented and improved internal control system including entity level and process level key controls as well as policies monitored by the controlling manager according to COSO framework during 2016. Risk assessment and control evaluation process were conducted by the controlling manager in 2016;

As a result, material weakness (ii) to (iv) in internal control over financial reporting have been remediated. However, we still have an insufficient number of financial reporting personnel with an appropriate level of knowledge, experience and training in application of U.S. GAAP and SEC rules and regulations commensurate with our reporting requirements. We will (i) hire additional qualified financial reporting personnel with U.S. GAAP and SEC reporting experience, and, (ii) improve the capabilities of existing financial reporting personnel through training and education in the accounting and reporting requirements under U.S. GAAP, and SEC rules and regulations. In addition, we will establish effective monitoring and oversight controls for non-recurring and complex transactions to ensure the accuracy and completeness of the Company's consolidated financial statements and related disclosures.

## Item 16.

### Item 16A. Audit Committee Financial Expert.

Our board of directors has determined that Mr. Tianruo (Robert) Pu, chairman of our audit committee, meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC and meets the criteria for independence set forth in Section 10A(m)(3) of the Exchange Act.

### Item 16B. Code of Ethics.

Our board of directors has adopted a code of business conduct and ethics which is applicable to our directors, officers and employees. Our code of business conduct and ethics has been filed as an exhibit to our registration statement on Form F-1 (File No. 333-201413) initially filed with the SEC on January 9, 2015.

### Item 16C. Principal Accountant Fees and Services.

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our principal external accounting firms.

	<b>Year Ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>USD</b>	<b>USD</b>
	<b>(in thousands)</b>	
Audit fees <sup>(1)</sup>	1,200	500
Total	<u>1,200</u>	<u>500</u>

(1) "Audit fees" means the aggregate fees billed in each of the fiscal years for professional services rendered by our principal external auditors for the audit of our annual consolidated financial statements.

The policy of our audit committee is to pre-approve all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm.

### Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

## **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

None.

## **Item 16F. Change in Registrant's Certifying Accountant.**

On July 7, 2016, we dismissed Deloitte Touche Tohmatsu Certified Public Accountants LLP, or Deloitte as our independent registered public accounting firm. The decision was not made due to any disagreements with Deloitte. Effective from November 30, 2016, we appointed Ernst & Young Hua Ming LLP, or Ernst & Young China, a member firm of Ernst & Young Global Limited, or Ernst & Young Global, as our new independent registered public accounting firm. The change of our independent registered public accounting firm was approved by the audit committee of our board.

Deloitte's audit reports on our consolidated financial statements as of December 31, 2015 and 2014 and for each of the years ended December 31, 2015 and 2014 did not contain an adverse opinion or a disclaimer of opinion and were not qualified. The audit reports were not modified as to accounting principles or audit scope however they were modified due to uncertainty regarding the our Company's ability to continue as a going concern.

During each of the years ended December 31, 2015, 2014 and the subsequent interim period through July 7, 2016, there were (i) no disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to Deloitte's satisfaction, would have caused Deloitte to make reference thereto in their reports, and (ii) no "reportable events" requiring disclosure pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F in connection with our annual report on Form 20-F.

We provided Deloitte with a copy of the disclosures from the first paragraph to the third paragraph under this Item 16F and requested from Deloitte a letter addressed to the Securities and Exchange Commission indicating whether it agrees with such disclosures. A copy of Deloitte's letter dated May 26, 2017 is attached as Exhibit 15.5.

During each of the years ended December 31, 2015, 2014 and 2013 and the subsequent interim period through November 30, 2016, neither we nor anyone on behalf of us has consulted with Ernst & Young China regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Ernst & Young China concluded was an important factor considered by us in reaching a decision as to any accounting, auditing, or financial reporting issue, (ii) any matter that was the subject of a disagreement pursuant to Item 16F(a)(1)(iv) of the instructions to Form 20-F, or (iii) any reportable event pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F.

In connection with the appointment of Ernst & Young China as our independent auditor for the year ended December 31, 2016, Ernst & Young China evaluated its auditor independence and informed us the following matter:

On April 13, 2015, we appointed Citibank, N.A. as the depository for our ADSs to be listed for trading on the Nasdaq Global Market. As of December 31, 2016 Citibank, N.A. was our only record shareholder in the United States, holding 226,322,442 ordinary shares, which represented 15.3 % of our outstanding ordinary shares.

Ernst & Young China informed us that certain member firms of Ernst & Young Global have lending relationships with Citibank, N.A. that have been in place throughout 2016 and such relationships are continuing. According to SEC auditor independent rules, an accountant is not independent when the accounting firm, has any loan (including any margin loan) to or from an audit client's record owner of more than ten percent of the audit client's equity securities, subject to certain exceptions.

Ernst & Young China subsequently informed us that after careful consideration of the facts and circumstances and the applicable independence rules, it concluded that the debtor-credit relationships would not impair Ernst & Young China's ability to exercise objective and impartial judgment in connection with its audits of our financial statements for the year ending December 31, 2016 and future periods.

Our audit committee also reviewed and considered the impact that the debtor-creditor relationships may have had on Ernst & Young China's independence with respect to us under the applicable independence rules. After considering all the facts and circumstances, our audit committee determined that Ernst & Young China would be capable of exercising objective and impartial judgment in connection with the audits of our financial statements.

Therefore, with respect to the independence matter described above, we concluded that a reasonable investor with knowledge of all relevant facts and circumstances would conclude that Ernst & Young China was and would be capable of exercising objective and impartial judgment in connection with the audits of our financial statement for the fiscal year ended December 31, 2016 and future periods.

#### **Item 16G. Corporate Governance.**

We are incorporated in the Cayman Islands and our corporate governance practices are governed by applicable Cayman Islands law. In addition, because our ADSs are listed on The NASDAQ Global Market, we are subject to NASDAQ's corporate governance requirements. NASDAQ Stock Market Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement.

NASDAQ Marketplace Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement.

We have informed NASDAQ that we will follow home country practice in place of all of the requirements of Rule 5600 other than those rules which we are required to follow pursuant to the provisions of Rule 5615(a)(3).

- Rule 5605(b), pursuant to which (i) a majority of the board of directors must be comprised of Independent Directors, and (ii) the Independent Directors must have regularly scheduled meetings at which only Independent Directors are present.
- Rule 5605(c) (other than those parts as to which the home country exemption is not applicable), pursuant to which each company must have, and certify that it has and will continue to have, an audit committee of at least three members, each of whom must meet criteria set forth in Rule 5605(c)(2) (A).
- Rule 5605(d), pursuant to which each company must (i) certify that it has adopted a formal written compensation committee charter and that the compensation committee will review and reassess the adequacy of the formal written charter on an annual basis, and (ii) have a compensation committee of at least two members, each of whom must be an Independent Director.
- Rule 5605(e), pursuant to which director nominees must be selected, or recommended for the Board's selection, either by Independent Directors constituting a majority of the Board's Independent Directors in a vote in which only Independent Directors participate, or a nominations committee comprised solely of Independent Directors.
- Rule 5610, pursuant to which each company shall adopt a code of conduct applicable to all directors, officers and employees.
- Rule 5620(a), pursuant to which each company listing common stock or voting preferred stock, or their equivalents, shall hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end.
- Rule 5620(b), pursuant to which each company shall solicit proxies and provide proxy statements for all meetings of shareholders and shall provide copies of such proxy solicitation to Nasdaq.
- Rule 5620(c), pursuant to which each company that is not a limited partnership shall provide for a quorum as specified in its by-laws for any meeting of the holders of common stock; provided, however, that in no case shall

such quorum be less than  $33\frac{1}{3}\%$  of the outstanding shares of the company's common voting stock.

- Rule 5630, pursuant to which each company that is not a limited partnership shall conduct an appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis by the company's audit committee or another independent body of the board of directors.
- Rule 5635(a), pursuant to which shareholder approval is required in certain circumstances prior to an issuance of securities in connection with the acquisition of the stock or assets of another company.
- Rule 5635(b), pursuant to which shareholder approval is required prior to the issuance of securities when the issuance or potential issuance will result in a change of control of the company.
- Rule 5635(c), pursuant to which shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, subject to certain exceptions.
- Rule 5635(d), pursuant to which shareholder approval is required prior to the issuance of securities in connection with a transaction other than a public offering involving:
  - o the sale, issuance or potential issuance by the company of common stock (or securities convertible into or exercisable for common stock) at a price less than the greater of book or market value which together with sales by officers, directors or Substantial Shareholders of the company equals 20% or more of common stock or 20% or more of the voting power outstanding before the issuance; or
  - o the sale, issuance or potential issuance by the company of common stock (or securities convertible into or exercisable common stock) equal to 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance for less than the greater of book or market value of the stock.

**Item 16H. Mine Safety Disclosure**

Not applicable.

**PART III**

**Item 17. Financial Statements.**

We have elected to provide financial statements pursuant to Item 18.

**Item 18. Financial Statements.**

Our consolidated financial statements are included at the end of this annual report.

**Item 19. Exhibits.**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to exhibit 3.1 to our F-1 registration statement (File No. 333-201413) initially filed with the SEC on January 9, 2015)
2.1	Deposit Agreement by and among the Registrant and Citibank, N.A., as Depositary, and the Holders and Beneficial Owners of the American Depositary Shares issued thereunder, dated as of April 13, 2015 (incorporated by reference to exhibit 4.3 to our S-8 registration statement (File No. 333-206466) filed with the SEC on August 19, 2015)
2.2	Specimen American Depositary Receipt (included in Exhibit 2.1)



- 3.3 Specimen Certificate for Ordinary Shares (incorporated by reference to exhibit 4.2 to our F-1 registration statement (File No. 333-201413) initially filed with the SEC on January 9, 2015)
- 4.1 Amended and Restated 2011 Share Incentive Plan (incorporated by reference to exhibit 10.1 to our S-8 registration statement (File No. 333-206466) filed with the SEC on August 19, 2015)
- 4.2 Master Exclusive Service Agreement, dated as of May 13, 2015, by and among Shanghai Zhongming Supply Chain Management Co., Ltd., Shanghai Zhongmin Supply Chain Management Co., Ltd. and the shareholder of Shanghai Zhongmin Supply Chain Management Co., Ltd.(incorporated by reference to exhibit 4.10 to our annual report on Form 20-F filed with the SEC on April 29, 2016)
- 4.3 Business Cooperation Agreement, dated as of May 13, 2015, by and among Shanghai Zhongming Supply Chain Management Co., Ltd., Shanghai Zhongmin Supply Chain Management Co., Ltd. and the shareholder of Shanghai Zhongmin Supply Chain Management Co., Ltd. (incorporated by reference to exhibit 4.11 to our annual report on Form 20-F filed with the SEC on April 29, 2016)
- 4.4 Exclusive Option Agreement, dated as of May 13, 2015, by and among Shanghai Zhongming Supply Chain Management Co., Ltd., Shanghai Zhongmin Supply Chain Management Co., Ltd. and the shareholder of Shanghai Zhongmin Supply Chain Management Co., Ltd. (incorporated by reference to exhibit 4.12 to our annual report on Form 20-F filed with the SEC on April 29, 2016)
- 4.5 Equity Interest Pledge Agreement, dated as of May 13, 2015, by and among Shanghai Zhongming Supply Chain Management Co., Ltd., Shanghai Zhongmin Supply Chain Management Co., Ltd. and the shareholder of Shanghai Zhongmin Supply Chain Management Co., Ltd. (incorporated by reference to exhibit 4.13 to our annual report on Form 20-F filed with the SEC on April 29, 2016)
- 4.6 Proxy Agreement and Power of Attorney, dated as of May 13, 2015, by and among Shanghai Zhongming Supply Chain Management Co., Ltd., Shanghai Zhongmin Supply Chain Management Co., Ltd. and the shareholder of Shanghai Zhongmin Supply Chain Management Co., Ltd. (incorporated by reference to exhibit 4.14 to our annual report on Form 20-F filed with the SEC on April 29, 2016)
- 4.7 Share Purchase Agreement, dated as of June 5, 2015, by and among the Registrant, New Admiral Limited, Zhejiang Sunward Fishery Restaurant Group Share Co., Ltd., Junhe Investment Pte. Ltd., Shanghai Zhong Ju Investment Management Center, Extensive Power Limited, Global Oriental Development Limited, Asia Global Develop Limited, Markland (Hong Kong) Investment Limited, Markland (Hong Kong) Planning Limited, Youlong Huang, Ning Lin, Wai Poon, Gang Wang and Guoping Wu (incorporated by reference to exhibit 99.5 to the Schedule 13D (File No. 005-88838) filed with the SEC on September 21, 2015).
- 4.8 Amendment to Share Purchase Agreement, dated as of September 7, 2015, by and between the Registrant, New Admiral Limited and the representative of the sellers (incorporated by reference to exhibit 99.6 to the Schedule 13D (File No. 005-88838) filed with the SEC on September 21, 2015).
- 4.9 Share Subscription Agreement, dated as of June 5, 2015, by and between the Registrant and Maodong Xu (incorporated by reference to exhibit 99.2 to the Schedule 13D (File No. 005-88838) filed with the SEC on September 21, 2015).
- 4.10 Amendment to Subscription Agreement, dated as of September 7, 2015, by and between the Registrant and Maodong Xu (incorporated by reference to exhibit 99.3 to the Schedule 13D (File No. 005-88838) filed with the SEC on September 21, 2015)
- 4.11 Registration Rights Agreement, dated as of June 8, 2015, by and among the Registrant, New Admiral Limited, Zhejiang Sunward Fishery Restaurant Group Share Co., Ltd., Junhe Investment Pte. Ltd., Shanghai Zhong Ju Investment Management Center, Extensive Power Limited, Global Oriental Development Limited, Asia Global Develop Limited, Markland (Hong Kong) Investment Limited, Markland (Hong Kong) Planning Limited, Youlong Huang, Ning Lin, Wai Poon, Gang Wang, Guoping Wu, New Field Worldwide Ltd., Link Crossing Limited, Blue Ivy Holdings Limited and Maodong Xu (incorporated by reference to exhibit 99.8 to

the Schedule 13D (File No. 005-88838) filed with the SEC on September 21, 2015)

- 4.12 Lock-Up Agreement, dated as of June 8, 2015, by and between the Registrant and Maodong Xu (incorporated by reference to exhibit 99.9 to the Schedule 13D (File No. 005-88838) filed with the SEC on September 21, 2015)
- 4.13 Lock-Up Agreement, dated as of June 8, 2015, by and between the Registrant and Xiaoxia Zhu (incorporated by reference to exhibit 99.5 to the Schedule 13D (File No. 005-88838) filed with the SEC on June 18, 2015)
- 4.14 Lock-Up Agreement, dated as of June 8, 2015, by and between the Registrant and Huimin Wang (incorporated by reference to exhibit 99.5 to the Schedule 13D (File No. 005-88838) filed with the SEC on June 19, 2015)
- 4.15 Working Capital Provision Agreement, dated as of April 20, 2015, by and between the Registrant, Xiaoxia Zhu and Huimin Wang (incorporated by reference to exhibit 4.23 of our annual report on Form 20-F filed with the SEC on April 29, 2016)

4.16*	Working Capital Provision Agreement, dated as of May 25, 2017, by and between the Registrant, Xiaoxia Zhu and Huimin Wang.
4.17	Share Purchase Agreement, dated as of September 7, 2015, by and between the Registrant and Century Winning Limited (incorporated by reference to exhibit 4.33 of our annual report on Form 20-F filed with the SEC on April 29, 2016)
4.18*	Supplemental Agreement, dated as of December 28, 2016, by and among Shanghai Zhongming Supply Chain Management Co., Ltd., Shanghai Zhongmin Supply Chain Management Co., Ltd. and Shanghai Zhongmin Investment and Development Group Co., Ltd. (formally known as Shanghai Zhongmin Investment and Development Group Co., Ltd.)
4.19*	Financial Support Letter, dated as of May 18, 2017, from the Registrant to Shanghai Zhongmin Supply Chain Management Co., Ltd.
8.1*	List of Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to exhibit 99.1 to our F-1 registration statement (File No. 333-201413) initially filed with the SEC on January 9, 2015)
12.1*	Certification of Chief Executive Officer Required by Rule 13a-14(a)
12.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a)
13.1**	Certification of Chief Executive Officer Required by Rule 13a-14(b)
13.2**	Certification of Chief Financial Officer Required by Rule 13a-14(b)
15.1*	Consent of Ernst & Young Hua Ming LLP
15.2*	Consent of Beijing Dentons Law Offices, LLP
15.3*	Consent of Maples and Calder (Hong Kong) LLP
15.4*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP
15.5*	Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP to the SEC
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

---

\* Filed herewith

\*\* Furnished herewith

## SIGNATURES

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

### JMU LIMITED

By: /s/Xiaoxia Zhu  
Name: Xiaoxia Zhu  
Title: Chief Executive Officer

Date: May 26, 2017

**JMU LIMITED (FORMERLY KNOWN AS WOWO LIMITED)  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016**

---

**JMU LIMITED**

**FORMERLY KNOWN AS WOWO LIMITED**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<b>Consolidated Financial Statements</b>	<b>PAGE(S)</b>
<a href="#"><u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></a>	F-2
<a href="#"><u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></a>	F-3
<a href="#"><u>CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2015 AND 2016</u></a>	F-4 – F-5
<a href="#"><u>CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016</u></a>	F-6 – F-7
<a href="#"><u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016</u></a>	F-8
<a href="#"><u>CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016</u></a>	F-9 – F-11
<a href="#"><u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016</u></a>	F-12 – F-13
<a href="#"><u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016</u></a>	F-14 – F-60

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
JMU Limited (formerly known as Wowo Limited):

We have audited the accompanying consolidated balance sheet of JMU Limited (formerly known as Wowo Limited) (the "Company") as of December 31, 2016 and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JMU Limited at December 31, 2016 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young Hua Ming LLP  
Shanghai, the People's Republic of China

May 26, 2017

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Board of Directors and Shareholders of JMU Limited:

We have audited the accompanying consolidated balance sheet of JMU Limited (the "Company", formerly known as "Wowo Limited"), its subsidiaries, its variable interest entity ("VIE"), and its VIE's subsidiaries (collectively, the "Group") as of December 31, 2015 and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the each of the two years ended December 31, 2015. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and the results of their operations and their cash flows for each of the two years ended December 31, 2015, in conformity with the accounting principles generally accepted in the United States of America .

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Group's recurring losses from operations and shareholders' equity raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People's Republic of China

April 29, 2016

**JMU LIMITED**  
**FORMERLY KNOWN AS WOWO LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<u>Note</u>	<u>As of December 31,</u>	
		<u>2015</u>	<u>2016</u>
<b>ASSETS:</b>			
<b>Current assets:</b>			
Cash and cash equivalents		11,151,900	2,604,886
Accounts receivable, net of allowance of nil as of December 31, 2015 and 2016	7	3,748,398	1,645,237
Inventories, net		94,409	224,148
Prepaid expenses and other current assets	8	25,281,434	8,677,630
Deferred tax assets	14	-	63,286
Amounts due from related parties	20	806,423	212,805
<b>Total current assets</b>		<b><u>41,082,564</u></b>	<b><u>13,427,992</u></b>
<b>Non-current assets:</b>			
Property and equipment, net	9	478,075	1,977,659
Acquired intangible assets, net	10	50,562,945	36,274,238
Investment	11	-	720,150
Goodwill	12	250,650,500	221,337,157
Deferred tax assets	14	-	156,316
Other non-current assets		-	151,552
<b>Total non-current assets</b>		<b><u>301,691,520</u></b>	<b><u>260,617,072</u></b>
<b>TOTAL ASSETS</b>		<b><u>342,774,084</u></b>	<b><u>274,045,064</u></b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY :</b>			
<b>Current liabilities:</b>			
Accounts and notes payable (including accounts and notes payable of VIE without recourse to the Company of \$3,818,023 and \$2,200,292 as of December 31, 2015 and 2016, respectively)		3,831,218	2,200,451
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of VIE without recourse to the Company of \$19,134,673 and \$8,198,754 as of December 31, 2015 and 2016, respectively)	13	19,970,456	9,033,258
Advance from customers (including advance from customers of VIE without recourse to the Company of \$828,437 and \$2,282,353 as of December 31, 2015 and 2016, respectively)		828,437	2,282,353
Amounts due to related parties (including amounts due to related parties of VIE without recourse to the Company of \$319,767 and \$1,650,168 as of December 31, 2015 and 2016, respectively)	20	319,767	1,711,028
<b>Total current liabilities</b>		<b><u>24,949,878</u></b>	<b><u>15,227,090</u></b>

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED BALANCE SHEETS (CONTINUED)  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	Note	As of December 31,	
		2015	2016
<b>LIABILITIES AND SHAREHOLDER'S EQUITY (CONTINUED):</b>			
<b>Non-current liabilities:</b>			
Other non-current liabilities (including other non-current liabilities of VIE without recourse to the Company of nil and \$1,086,342 as of December 31, 2015 and 2016, respectively)		502,180	1,352,202
Deferred tax liabilities (including deferred tax liabilities of the VIE without recourse to the Company of nil and nil as of December 31, 2015 and 2016, respectively)	14	12,640,736	9,068,560
<b>Total non-current liabilities</b>		<b>13,142,916</b>	<b>10,420,762</b>
<b>TOTAL LIABILITIES</b>		<b>38,092,794</b>	<b>25,647,852</b>
<b>Commitments and contingencies</b>	21		
<b>Shareholders' equity:</b>			
Ordinary shares (\$0.00001 par value; 1,827,462,652 shares authorized, 1,476,208,670 shares issued and outstanding as of December 31, 2015 and 2016)	15	14,447	14,756
Additional paid-in capital		630,469,782	632,994,514
Accumulated deficit		(326,711,132)	(352,004,277)
Accumulated other comprehensive income/(loss)		908,193	(32,607,781)
<b>Total shareholders' equity</b>		<b>304,681,290</b>	<b>248,397,212</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>342,774,084</b>	<b>274,045,064</b>

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

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	Note	For the years ended December 31,		
		2014	2015	2016
<b>Revenues</b>				
Related parties	20	-	541,758	10,078,276
Third parties		-	10,935,794	63,122,885
<b>Total revenues</b>		-	<b>11,477,552</b>	<b>73,201,161</b>
Cost of revenues		-	(13,220,386)	(72,856,808)
<b>Gross (loss) profit</b>		-	<b>(1,742,834)</b>	<b>344,353</b>
<b>Operating expenses:</b>				
Selling and marketing (including share-based compensation of nil, nil and \$680,124 for the years ended December 31, 2014, 2015 and 2016, respectively)		-	(5,360,044)	(20,405,602)
General and administrative (including share-based compensation of \$4,190,449, nil and \$417,419 for the years ended December 31, 2014, 2015 and 2016, respectively)		(4,323,253)	(12,911,773)	(7,530,851)
Impairment of goodwill		-	(85,934,770)	-
<b>Total operating expenses</b>		<b>(4,323,253)</b>	<b>(104,206,587)</b>	<b>(27,936,453)</b>
<b>Loss from operations</b>		<b>(4,323,253)</b>	<b>(105,949,421)</b>	<b>(27,592,100)</b>
Interest income		4	7,392	26,147
Other income, net		-	46,210	39,351
<b>Loss before provision for income taxes</b>		<b>(4,323,249)</b>	<b>(105,895,819)</b>	<b>(27,526,602)</b>
Income tax benefits	14	-	1,249,696	2,233,457
<b>Loss from continuing operations</b>		<b>(4,323,249)</b>	<b>(104,646,123)</b>	<b>(25,293,145)</b>
<b>Discontinued operations:</b>				
(Loss)/income from discontinued operations (including gain of \$47,390,421 upon disposal in the year ended December 31, 2015), net of tax of nil	6	(39,546,576)	11,075,935	-
<b>Net loss</b>		<b>(43,869,825)</b>	<b>(93,570,188)</b>	<b>(25,293,145)</b>
Less: Net loss attributable to noncontrolling interests		(13,478)	-	-
<b>Net loss attributable to JMU Limited</b>		<b>(43,856,347)</b>	<b>(93,570,188)</b>	<b>(25,293,145)</b>

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<u>Note</u>	<u>For the years ended December 31,</u>		
		<u>2014</u>	<u>2015</u>	<u>2016</u>
Accretion for Series A-1 convertible redeemable preferred shares	16	1,445,125	442,409	-
Accretion for Series A-2 convertible redeemable preferred shares	16	36,947,001	1,202,748	-
Accretion for Series B convertible redeemable preferred shares	16	2,422,383	720,194	-
<b>Net loss attributable to holders of ordinary shares of JMU Limited</b>		<b><u>(84,670,856)</u></b>	<b><u>(95,935,539)</u></b>	<b><u>(25,293,145)</u></b>
Net loss per ordinary share	19			
Basic		(0.28)	(0.09)	(0.02)
Diluted		(0.28)	(0.09)	(0.02)
Net loss per ordinary share from continuing operations	19			
Basic		(0.03)	(0.1)	(0.02)
Diluted		(0.03)	(0.1)	(0.02)
Net (loss) income per ordinary share from discontinued operations	19			
Basic		(0.25)	0.01	-
Diluted		(0.25)	0.01	-
Net income per Series A-1 preferred share-Basic	19	0.12	0.14	-
Net income per Series A-2 preferred share-Basic	19	0.30	0.04	-
Net income per Series B preferred share-Basic	19	0.08	0.09	-
Weighted average shares used in calculating net loss per ordinary share	19			
Basic				
Continuing operations		303,886,640	1,001,754,524	1,474,087,060
Discontinued operations		303,886,640	1,001,754,524	-
Diluted				
Continuing operations		303,886,640	1,001,754,524	1,474,087,060
Discontinued operations		303,886,640	1,043,473,265	-
<b>Weighted average shares used in calculating net loss per share</b>	19			
Series A-1 preferred share		12,202,988	3,242,986	-
Series A-2 preferred share		122,029,877	32,429,858	-
Series B preferred share		30,507,471	8,107,465	-

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

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<u>Note</u>	<u>For the years ended December 31,</u>		
		<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Net loss</b>		<b>(43,869,825)</b>	<b>(93,570,188)</b>	<b>(25,293,145)</b>
Other comprehensive income (loss), net of tax of nil:				
Change in cumulative foreign currency translation adjustment		<u>2,031,505</u>	<u>1,589,686</u>	<u>(33,515,974)</u>
<b>Comprehensive loss</b>		<b>(41,838,320)</b>	<b>(91,980,502)</b>	<b>(58,809,119)</b>
Less: comprehensive loss attributable to noncontrolling interests		<u>(13,353)</u>	<u>-</u>	<u>-</u>
<b>Comprehensive loss attributable to JMU Limited's shareholders</b>		<b><u>(41,824,967)</u></b>	<b><u>(91,980,502)</u></b>	<b><u>(58,809,119)</u></b>

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

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	Ordinary shares		Additional paid-in capital	Subscription receivable	Accumulated deficit	Accumulated other comprehensive loss	Total JMU Limited shareholders' (deficit)/equity	Non controlling interests	Total shareholders' (deficit)/equity
	Number of Shares	Amount							
	<b>Balance as of January 1, 2014</b>	<b>303,886,640</b>							
Accretion for Series A-1, Series A-2 and Series B convertible redeemable preferred shares (Note 16)	-	-	(12,735,503)	-	(28,079,006)	-	(40,814,509)	-	(40,814,509)
Net loss	-	-	-	-	(43,856,347)	-	(43,856,347)	(13,478)	(43,869,825)
Share-based compensation (Note 18)	-	-	5,762,384	-	-	-	5,762,384	-	5,762,384
Subscription received	-	-	-	3,000	-	-	3,000	-	3,000
Other comprehensive income	-	-	-	-	-	2,031,380	2,031,380	125	2,031,505
Partial disposal of a VIE	-	-	(56,597)	-	-	-	(56,597)	56,597	-
<b>Balance as of December 31, 2014</b>	<b>303,886,640</b>	<b>3,039</b>	<b>-</b>	<b>-</b>	<b>(233,140,944)</b>	<b>(681,493)</b>	<b>(233,819,398)</b>	<b>43,244</b>	<b>(233,776,154)</b>

**JMU LIMITED**  
**FORMERLY KNOWN AS WOWO LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY (CONTINUED)**  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<u>Ordinary shares</u>		<u>Additional paid-in capital</u>	<u>Subscription receivable</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total JMU Limited shareholders' (deficit)/equity</u>	<u>Non controlling interests</u>	<u>Total shareholders' (deficit)/equity</u>
	<u>Number of Shares</u>	<u>Amount</u>							
Issuance of ordinary shares upon initial public offering ("IPO")	75,960,000	760	37,293,840	-	-	-	37,294,600	-	37,294,600
Ordinary shares converted to ADS shares for future exercise of share options (Note 15)	31,496,832	-	-	-	-	-	-	-	-
Share options exercised (Note 15)	6,866,280	69	105,839	-	-	-	105,908	-	105,908
Conversion of Mr. Xu's indebtedness into ordinary shares	124,835,802	1,248	69,351,975	-	-	-	69,353,223	-	69,353,223
Conversion of Series A-1, Series A-2 and Series B convertible redeemable preferred shares into ordinary shares (Note 16)	164,740,336	1,647	127,017,632	-	-	-	127,019,279	-	127,019,279
Issuance of shares as a consideration for acquisition of JMU	741,422,780	7,414	376,957,523	-	-	-	376,964,937	-	376,964,937
Issuance of ordinary shares to Mr. Xu	27,000,000	270	14,999,730	-	-	-	15,000,000	-	15,000,000
Share-based compensation (Note 18)	-	-	7,176,600	-	-	-	7,176,600	-	7,176,600
Purchase the noncontrolling interests of subsidiaries	-	-	(68,006)	-	-	-	(68,006)	(43,244)	(111,250)
Accretion for Series A-1, Series A-2 and Series B convertible redeemable preferred shares (Note 16)	-	-	(2,365,351)	-	-	-	(2,365,351)	-	(2,365,351)
Net loss	-	-	-	-	(93,570,188)	-	(93,570,188)	-	(93,570,188)
Other comprehensive income	-	-	-	-	-	1,589,686	1,589,686	-	1,589,686
<b>Balance as of December 31, 2015</b>	<b><u>1,476,208,670</u></b>	<b><u>14,447</u></b>	<b><u>630,469,782</u></b>	<b><u>-</u></b>	<b><u>(326,711,132)</u></b>	<b><u>908,193</u></b>	<b><u>304,681,290</u></b>	<b><u>-</u></b>	<b><u>304,681,290</u></b>

**JMU LIMITED**  
**FORMERLY KNOWN AS WOWO LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY (CONTINUED)**  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<u>Ordinary shares</u>		<u>Additional paid-in capital</u>	<u>Subscription receivable</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total JMU Limited shareholders' (deficit)/equity</u>	<u>Non controlling interests</u>	<u>Total shareholders' (deficit)/equity</u>
	<u>Number of Shares</u>	<u>Amount</u>							
Share options exercised (Note 15)	2,294,208	23	49,972	-	-	-	49,995	-	49,995
Restricted share units vested (Note 15)	28,639,900	286	(286)	-	-	-	-	-	-
Share-based compensation (Note 18)	-	-	1,097,543	-	-	-	1,097,543	-	1,097,543
Obligation to issue ordinary shares (Note 3)	-	-	1,377,503	-	-	-	1,377,503	-	1,377,503
Net loss	-	-	-	-	(25,293,145)	-	(25,293,145)	-	(25,293,145)
Other comprehensive loss	-	-	-	-	-	(33,515,974)	(33,515,974)	-	(33,515,974)
Settlement of share options exercised with shares held by depository bank (Note 15)	(30,934,108)	-	-	-	-	-	-	-	-
<b>Balance as of December 31, 2016</b>	<b>1,476,208,670</b>	<b>14,756</b>	<b>632,994,514</b>	<b>-</b>	<b>(352,004,277)</b>	<b>(32,607,781)</b>	<b>248,397,212</b>	<b>-</b>	<b>248,397,212</b>

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

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<b>For the years ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>			
Net loss	(43,869,825)	(93,570,188)	(25,293,145)
Less: Net (loss)/income from discontinued operations	<u>(39,546,576)</u>	<u>11,075,935</u>	<u>-</u>
Net loss from continuing operations	(4,323,249)	(104,646,123)	(25,293,145)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation	4,190,449	-	1,097,543
Depreciation and amortization	-	4,949,036	8,900,192
Impairment of goodwill	-	85,934,770	-
Income tax benefits	-	(1,249,696)	(2,233,457)
Customer credits earned under the loyalty program to be settled in shares	-	-	1,377,503
Changes in operating assets and liabilities:			
Accounts receivable	-	(3,008,932)	1,936,461
Inventories	-	957,133	(142,273)
Prepaid expenses and other current assets	(110,778)	(18,524,604)	15,797,204
Amount due from related parties	-	8,512,188	567,545
Other non-current assets	-	-	(158,469)
Accounts and notes payable	-	1,873,123	(1,436,785)
Accrued expenses and other current liabilities	(16,863)	16,708,637	(8,612,603)
Amounts due to related parties	-	(2,739,467)	1,474,304
Other non-current liabilities	-	502,180	899,594
<b>Net cash used in continuing operations</b>	<b><u>(260,441)</u></b>	<b><u>(10,731,755)</u></b>	<b><u>(5,826,386)</u></b>
<b>Net cash used in discontinued operations</b>	<b><u>(31,699,619)</u></b>	<b><u>(22,799,544)</u></b>	<b><u>-</u></b>
<b>Net cash used in operating activities</b>	<b><u>(31,960,060)</u></b>	<b><u>(33,531,299)</u></b>	<b><u>(5,826,386)</u></b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	-	(93,317)	(1,860,321)
Payment for investment	-	-	(720,150)
Payments for acquisition of business (net of cash acquired of nil, \$20,196,362 and nil for the years ended December 31, 2014, 2015 and 2016, respectively)	-	(9,803,638)	-
<b>Net cash used in continuing operations</b>	<b><u>-</u></b>	<b><u>(9,896,955)</u></b>	<b><u>(2,580,471)</u></b>
<b>Net cash used in discontinued operations</b>	<b><u>(586,534)</u></b>	<b><u>(1,999,364)</u></b>	<b><u>-</u></b>
<b>Net cash used in investing activities</b>	<b><u>(586,534)</u></b>	<b><u>(11,896,319)</u></b>	<b><u>(2,580,471)</u></b>

**JMU LIMITED**  
FORMERLY KNOWN AS WOWO LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
(In U.S. dollars, except for number of shares and per share (or ADS) data)

	<b>For the years ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of ordinary shares upon IPO	-	40,294,600	-
Payments for IPO costs	(874,628)	(2,125,372)	-
Received from / (payment to) related parties	36,291,479	(250,000)	-
Subscription proceeds received	3,000	-	-
Proceeds from issuance of ordinary shares to Mr. Xu	-	15,000,000	-
<b>Net cash provided by continuing operations</b>	<b>35,419,851</b>	<b>52,919,228</b>	<b>-</b>
<b>Net cash (used in) / provided by discontinued operations</b>	<b>(1,651,880)</b>	<b>1,963,650</b>	<b>-</b>
<b>Net cash provided by financing activities</b>	<b>33,767,971</b>	<b>54,882,878</b>	<b>-</b>
Effect of exchange rate changes	5,490	50,468	(140,157)
Increase/(decrease) in cash and cash equivalents	1,226,867	9,505,728	(8,547,014)
<b>Cash and cash equivalents, beginning of the year</b>	<b>419,305</b>	<b>1,646,172</b>	<b>11,151,900</b>
<b>Cash and cash equivalents, end of the year</b>	<b>1,646,172</b>	<b>11,151,900</b>	<b>2,604,886</b>
Supplement disclosure of cash flow information:			
Interest paid	104,084	-	-

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

## **JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

### **1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

JMU Limited, formerly known as “Wowo Limited”, (the “Company”), was incorporated in Cayman Islands on July 13, 2011. The Company and its subsidiaries, variable interest entities (“VIEs”) and VIEs’ subsidiaries are primarily engaged in providing the e-commerce platform networking services, focusing on local entertainment and lifestyle services such as restaurants, movie theaters and beauty salons and also allow local merchants to create online stores and make direct sales to their target customers for consumption at their brick and mortar stores in the People’s Republic of China (“PRC”).

On April 8, 2015, the Company completed its IPO in National Association of Securities Dealers Automated Quotation (“NASDAQ”) by offering 4 million American Depositary Shares (“ADSs”), representing 72 million ordinary shares, and received net proceeds of \$35.2 million. On April 27, 2015, the Company issued an additional 220,000 ADSs, representing 3.96 million of ordinary shares to the underwriter for exercising the over-allotment option at price of \$10 per ADS and received net proceeds of \$2.1 million.

On June 5, 2015, the Company and its wholly owned subsidiary, New Admiral Limited (“New Admiral”) entered into an agreement to acquire Join Me Group (HK) Investment Company Limited and its subsidiaries, variable interest entity (“VIE”) and VIE’s subsidiaries (Collectively, “JMU Group”) with a consideration of 741,422,780 ordinary shares of the Company and \$30 million in cash. On that date, JMU Group, which operates a business-to-business (“B2B”) online e-commerce platform that provides integrated services to suppliers and consumers in the catering industry, became a wholly owned subsidiary of the Company. JMU Group engages primarily in the sale of rice, flavor, bean oil, seafood, wine and some other types of generic food and beverage products through its website *www.ccjoin.com*.

On September 9, 2015, the Company sold all of its equity interests in Wowo Group Limited, a subsidiary of the Company, together with all of its subsidiaries and consolidated VIEs and their respective subsidiaries (collectively, the “Group Buying Entities”), which were engaged in the Company’s group buying business and other non-food service-related businesses. The sale was pursuant to a definitive agreement entered into between the Company and Century Winning Limited, an exempted company with limited liability incorporated under the laws of the British Virgin Islands (the “Buyer”), in exchange for the Buyer’s payment of \$1 and the assumption of \$47,390,420 of net liabilities of the Group Buying Entities.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)**

This disposal represents a strategic shift and has a major effect on the Company's results of operations. Accordingly, assets and liabilities, revenues and expenses, and cash flows related to the Group Buying Entities have been reclassified in the accompanying consolidated financial statements as discontinued operations for all periods presented. The consolidated statement of operations and the consolidated statements of cash flows for the years ended December 31, 2014 is adjusted retrospectively to reflect the change. Additionally, the presentation of the accompanying notes will not include the financial information for the year ended December 31, 2014 if they were nil due to the disposal and related classification within discontinued operations mentioned above.

On December 28, 2016, the Company changed its name from Wowo Limited to JMU Limited.

As of December 31, 2016, the Company's major subsidiaries and VIE (collectively, the "Group") are as follows:

	<b>Date of acquisition/ incorporation</b>	<b>Place of establishment/ incorporation</b>	<b>Percentage of legal ownership</b>
<b>Subsidiaries:</b>			
New Admiral	April 27, 2015	Cayman Islands	100%
Join Me Group (HK) Investment Company Limited ("JMU Investment")	June 8, 2015	Hong Kong	100%
Join Me Group Supply Chain Management Company Limited ("JMU Supply Chain")	October 15, 2015	Hong Kong	100%
Shanghai Zhongming Supply Chain Management Co., Ltd. ("Shanghai Zhongming" or "WFOE")	June 8, 2015	PRC	100%
<b>VIE:</b>			
Shanghai Zhongmin Supply Chain Management Co., Ltd. ("Shanghai Zhongmin" or "VIE")	June 8, 2015	PRC	N/A

## **JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

### **1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)**

#### **The VIE arrangements**

The PRC laws and regulations currently place certain restrictions on foreign ownership of companies that engage in internet content and other restricted businesses. Specifically, foreign investors are not allowed to own more than 50% of the equity interests in any entity conducting internet content and other restricted businesses. To comply with these PRC laws and regulations, the Company conducts substantially its businesses through the VIE and VIE's subsidiaries. To provide the Company's control over the VIE and the rights to the expected residual returns of the VIE and VIE's subsidiaries, Shanghai Zhongming, a wholly foreign-invested enterprise in China, or WFOE entered into a series of contractual arrangements as described below with VIE and its shareholder.

Prior to the acquisition of JMU Group, JMU Group formed contractual arrangements through its wholly owned subsidiary Shanghai Zhongming with the VIE. As a result of the Company's acquisition of JMU Group, the Company through JMU's wholly owned subsidiary, Shanghai Zhongming, has (1) power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the right to receive economic benefits of the VIE that could be significant to the VIE. Accordingly, the Company is considered the primary beneficiary of the VIE and has consolidated the VIE's financial results of operations, assets, and liabilities in the Company's consolidated financial statements. The Company also believes that this ability to exercise control ensures that the VIE will continue to execute and renew the exclusive consulting and services agreements and pay service fees to the Company. The ability to charge service fees in amounts determined at the Company's sole discretion, and by ensuring that the exclusive services agreements are executed and renewed indefinitely, the Company has the right to receive substantially all of the economic benefits from the VIE.

Additionally, the previous VIE agreements entered into between Beijing Wowo Shijie Information Technology Co., Ltd. and Beijing Wowo Tuan Information Technology Co., Ltd. and Beijing Kai Yi Shi Dai Network Technology Co., Ltd are no longer in force as result of the disposal of Group Buying Entities.

The following is a summary of the various VIE agreements:

- ***Agreements that Transfers Economic Benefits and Risks to the Company***

#### *Master Exclusive Service Agreement and Business Cooperation Agreement*

Pursuant to the master exclusive service agreement and business cooperation agreement, VIE, including its subsidiaries or any companies or entities under its control, agrees to engage WFOE as its provider for technical and business support services. VIE will pay to WFOE service fees determined based on the audited consolidated net profit of VIE. WFOE will exclusively own any intellectual property arising from the performance of the services set forth in the agreement. WFOE will provide financial support to VIE in the form of bank loans or others forms as permitted under the PRC laws. The service agreements will remain effective upon the written confirmation issued by WFOE to VIE and/or its shareholder 30 days before the termination. Neither VIE nor its shareholder has the right to unilaterally terminate the agreement.

In connection with the master service agreement, the Company also entered into financial support undertaking letter with VIE and agrees to provide unlimited financial support to the VIE, to the extent permissible under the applicable PRC laws and regulations, whether or not any such operational loss is actually incurred. The Company will not request repayment of the loans or borrowings if the VIE or its shareholder do not have sufficient funds or are otherwise unable to repay.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)**

**The VIE arrangements (Continued)**

• ***Agreements that Provide the Company with Effective Control over VIE***

*Exclusive Option Agreement*

The VIE's shareholder has entered into an exclusive option agreement with WFOE, pursuant to which WFOE has an exclusive option to purchase, or to designate other persons to purchase, to the extent permitted by applicable PRC laws, rules and regulations, all of the equity interest in VIE from the shareholder. The purchase price for the entire equity interest is to be the minimum price permitted by applicable PRC laws and administrative regulations. If there is no minimum price under PRC laws or administrative regulations, the price shall be determined by the WFOE or on a basis of the registration capital of VIE. The term of the exclusive option agreement will remain effective upon written confirmation issued by the WFOE to VIE and its shareholder 30 days before the termination. Neither VIE nor its shareholder has the right to unilaterally terminate the agreement.

*Proxy and Power of Attorney Agreement*

The VIE's shareholder has signed an irrevocable proxy and power of attorney agreement to appoint WFOE, or its designee, as the attorney-in-fact to act on VIE's shareholder's behalf on all rights that the shareholder has in respect of such shareholder's equity interest in VIE conferred by relevant laws and regulations and the articles of association of VIE. The rights include but not limited to attending shareholders meeting, exercising voting rights and transferring all or a part of the equity interests of VIE held by the shareholder. The proxy and power of attorney will remain effective upon written confirmation issued by WFOE to VIE and its shareholder 30 days before the termination. Neither VIE nor its Shareholder has the right to unilaterally terminate the agreement.

*Equity Interest Pledge Agreement*

The VIE's shareholder has entered into an equity pledge agreement with the WFOE, under which the shareholder pledged all of the equity interests in VIE to WFOE as collateral to secure performance of all obligations under the Master Exclusive Service Agreement, Business Cooperation Agreement, Proxy and Power of Attorney Agreement and the Exclusive Option Agreement (collectively, the "Principal Agreement"). Pursuant to this Equity Interest Pledge Agreement, dividends generated by the pledged equity interests shall be deposited into the account designated by the WFOE and shall be used to pay the secured indebtedness prior and in preference to any other payment during the term of the pledge. If any event of default incurred under the Principal Agreement, WFOE, as the pledgee, will be entitled to dispose of the pledged equity interests and shall be paid in priority with the proceeds recovered from the disposal.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)***Risks in relation to the VIE structure*

Assessing the legal validity and compliance of these above noted arrangements are a precursor to the Company's ability to consolidate the results of operations and financial condition of the VIE and VIE's subsidiaries. The Company, in consultation with its PRC legal counsel, believes that:(1) the ownership structure of the Group, including its PRC subsidiary, VIE and VIE's subsidiaries is in compliance with all existing PRC laws and regulations; (2) each of the VIE agreements amongst the WFOE, the VIE and VIE's shareholder governed by PRC laws, are legal, valid and binding, enforceable against such parties, and will not result in any violations of PRC laws or regulations currently in effects; and (3) the Group's PRC subsidiary, VIE and VIE's subsidiaries have the necessary corporate power and authority to conduct its business as described in its business scope under its business licenses, which is in full force and effect, and the Group's business operations in the PRC are in compliance with existing PRC laws and regulations. The shareholder of the VIE are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

The Company's ability to control the VIE also depends on the power of attorney. The Company, through WFOE, has to vote on all matters requiring shareholder approval in the VIE entities. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC regulatory authorities could:

- § revoke the Group's business and operating licenses;
- § require the Group to discontinue or restrict its operations;
- § restrict the Group's right to collect revenues;
- § restrict or prohibit the Group to finance its business and operations in China;
- § shut down the Group's servers or block the Group's website;
- § require the Group to restructure its operations;
- § impose additional conditions or requirements with which the Group might not be able to comply, levy fines, confiscate the Group's income or the income of its PRC subsidiary or affiliated PRC entities; or
- § take other regulatory or enforcement actions against the Group that could be harmful to its business.

The imposition of any of these penalties could result in a material adverse effect on the Group's ability to conduct the Group's business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of the VIE, VIE's subsidiaries, or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIE and VIE's subsidiaries. The Group does not believe that any penalties imposed or actions taken by the PRC government would result in the liquidation or dissolution of the Company, WFOE, the VIE and their respective subsidiaries.

The following financial statement balances and amounts of the VIE and VIE's subsidiaries were included in the accompanying consolidated financial statements as follows after the elimination of intercompany balances and transactions among VIE and VIE's subsidiaries within the Group:

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)***Risks in relation to the VIE structure (Continued)*

	As of December 31,	
	2015	2016
	US\$	US\$
Cash and cash equivalents	2,137,414	1,923,903
Accounts receivable, net	3,748,398	1,645,237
Inventories, net	94,409	224,148
Prepaid expenses and other current assets	19,919,504	7,812,462
Amounts due from related parties	661,275	212,805
<b>Total current assets</b>	<b>26,561,000</b>	<b>11,818,555</b>
Property and equipment, net	317,186	1,864,660
Investment	-	720,150
Other non-current assets	-	151,553
<b>Total non-current assets</b>	<b>317,186</b>	<b>2,736,363</b>
<b>TOTAL ASSETS</b>	<b>26,878,186</b>	<b>14,554,918</b>
Accounts and notes payable	3,818,023	2,200,292
Accrued expenses and other current liabilities	19,134,673	8,198,754
Advance from customers	828,437	2,282,353
Amounts due to related parties	319,767	1,650,168
<b>Total current liabilities</b>	<b>24,100,900</b>	<b>14,331,567</b>
Other non-current liabilities	-	1,086,342
<b>Total non-current liabilities</b>	<b>-</b>	<b>1,086,342</b>
<b>TOTAL LIABILITIES</b>	<b>24,100,900</b>	<b>15,417,909</b>
	<b>For the years ended December</b>	
	<b>31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Revenues	11,477,552	66,288,019
Net loss	(8,052,187)	(17,022,631)

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)***Risks in relation to the VIE structure (Continued)*

	For the years ended December	
	31,	
	2015	2016
	US\$	US\$
Net cash provided by operating activities	238,302	2,657,916
Net cash used in investing activities	(44,228)	(2,578,472)
Net cash provided by financing activities	-	-

The VIE contributed an aggregate of nil, 100% and 90.6% of the consolidated revenues for the years ended December 31, 2014, 2015 and 2016, respectively. As of December 31, 2015 and 2016, the VIE accounted for an aggregate of 7.8% and 5.3%, respectively, of the consolidated total assets, and 63.3% and 60.1%, respectively, of the consolidated total liabilities. The assets not associated with the VIE primarily consist of certain cash and cash equivalents, certain prepaid expenses and other current assets and certain property and equipment. The recognized and unrecognized revenue-producing assets that are held by the VIE are primarily property and equipment and online platform.

There are no consolidated VIE's assets that are collateral for the VIE's obligations and can only be used to settle the VIE's obligations. There are no creditors (or beneficial interest holders) of the VIE that have recourse to the general credit of the Company or any of its consolidated subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIE. However, if the VIE ever need financial support, the Company's PRC subsidiary, WOFE, shall provide financial support to VIE in the form of bank loans or other forms as permitted under PRC law. Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 23 for disclosure of restricted net assets.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**2. GOING CONCERN**

The Group experienced a net loss of approximately \$43.9 million, \$93.6 million and \$25.3 million for the years ended December 31, 2014, 2015 and 2016, respectively, and negative cash flows from operations of approximately \$32.0 million, \$33.5 million and \$5.8 million for the years ended December 31, 2014, 2015 and 2016, respectively. These conditions raise substantial doubt about the Group's ability to continue as a going concern. However, management believes the Group has the ability to fulfill its financial obligations and will continue as a going concern because its primary shareholders, Ms. Xiaoxia Zhu ("Ms. Zhu") and Ms. Huimin Wang ("Ms. Wang"), have agreed in writing to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due through May 31, 2018. In January, March and May 2017, Ms. Zhu provided loans to fund the Group's daily operations with amounts of RMB10.0 million (\$1.2 million), RMB15.0 million (\$1.9 million) and RMB35.0 million (\$5.1 million), respectively. These loans are due on July 1, 2018.

The Group believes that it can realize its assets and satisfy its liabilities in the normal course of business with the financial support from Ms. Zhu and Ms. Wang. As a result, the consolidated financial statements have been prepared assuming the Group will continue as a going concern. The accompanying consolidated financial statements do not reflect any adjustments relating to the recoverability and reclassification of assets and liabilities as that might be necessary if the Group is unable to continue as a going concern.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Basis of presentation***

The consolidated financial statements of the Group have been prepared in accordance with the U.S. generally accepted accounting principles ("US GAAP").

***Principle of consolidation***

The consolidated financial statements of the Group include the financial statements of the Company, its consolidated subsidiaries, VIE and VIE's subsidiaries for which the Company is the primary beneficiary. All significant inter-company transactions and balances have been eliminated upon consolidation.

***Business combinations***

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interests of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired.

Consideration transferred in a business acquisition is measured at the fair value as at the date of acquisition.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Discontinued operations***

A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statements of operations. The amount of total current assets, total non-current assets, total current liabilities and total non-current liabilities are presented separately on the consolidated balance sheets.

***Use of estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, estimating useful lives and impairment for property and equipment and acquired intangible assets, impairment of goodwill, valuation allowance for deferred tax assets, share-based compensation and purchase price allocation. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

***Foreign currency***

The functional and reporting currency of the Company is the United States dollar ("U.S. dollars"). The functional currency of the Company's subsidiary, New Admiral, is U.S. dollars. The functional currency of the Company's HK subsidiaries, JMU Investment and JMU Supply Chain, is Hong Kong dollars ("HK dollars"). The financial records of the Group's subsidiaries, VIE and VIE's subsidiaries located in the PRC are maintained in their local currencies, the Renminbi ("RMB"), respectively, which are also the functional currencies of these entities.

Transactions denominated in currencies other than the respective entities' functional currencies are re-measured into the functional currencies, in accordance with Accounting Standards Codification ("ASC") 830 ("ASC 830") *Foreign Currency Matters*, at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-measured into the functional currencies at the exchange rates prevailing at the balance sheet date. All foreign exchange gains or losses are included in the consolidated statements of operations.

Assets and liabilities are translated to the reporting currency at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of consolidated statements of comprehensive loss.

***Cash and cash equivalents***

Cash and cash equivalents consists of cash on hand and demand deposits placed with banks or other financial institutions which are unrestricted as to withdrawal and use and have original maturities less than three months.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Accounts receivable, net of allowance*

Accounts receivable represents those receivables derived in the ordinary course of business, carried at net realizable value.

The Group maintains an allowance for doubtful accounts for estimated losses on uncollected accounts receivable. Management considers the following factors when determining the collectability of specific accounts: creditworthiness of customers, aging of the receivables, past transaction history with customers and their current condition, changes in customer payment terms, specific facts and circumstances, and the overall economic climate in the industries the Group serves. No allowance for doubtful accounts was recognized for each of the three years ended December 31, 2016.

*Inventories*

Inventory is stated at the lower of cost or market. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated market value for slow-moving merchandise and damaged goods. The amount of written-down depends upon factors such as whether the goods are returnable to vendors, historical and forecasted consumer demand, market condition and the promotional environment.

Written-down amounts are recorded in cost of goods sold in the consolidated statements of operations. No inventory provision was recognized for each of the three years ended December 31, 2016.

*Property and equipment*

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Computer equipment	3 years
Office equipment	5 years
Leasehold improvement	Over the shorter of lease term or the estimated useful lives of the assets

Repair and maintenance costs are charged to expense when incurred, whereas the cost of betterments that extend the useful life of property and equipment are capitalized as additions to the related assets. Retirement, sale and disposals of assets are recorded by removing the cost and related accumulated depreciation with any resulting gain or loss reflected in the consolidated statements of operations

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Acquired intangible assets*

Acquired intangible assets with finite lives are carried at cost less accumulated amortization and impairment. Amortization of finite lived intangible assets is calculated on a straight-line basis over the shorter of the contractual terms or the expected useful lives of the acquired assets. The amortization period by major intangible asset classes is as follows:

Trade name/domain name	10 years
Non-compete agreement	4.5 years
Online platform	5 years
Customer relationship	5-10 years

*Impairment of long-lived assets other than goodwill*

The Group evaluates the recoverability of its long-lived assets, including intangible assets with finite lives, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the excess of carrying amount over the fair value of the assets.

No impairment loss was provided for each of the three years ended December 31, 2016.

*Impairment of goodwill*

The Group annually, or more frequently if the Group believes indicators of impairment exist, reviews the carrying value of goodwill to determine whether impairment may exist.

Specifically, goodwill impairment is determined using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

The Group has determined to perform the annual impairment tests on December 31 of each year. Prior to the acquisition of JMU Group, goodwill was attributable to the group buying business which is classified as discontinued operations in the year ended December 31, 2015. No goodwill impairment loss was recognized for this business for the year ended December 31, 2014. The goodwill as of December 31, 2015 and 2016 was attributable solely to the JMU business on which an impairment loss of \$85,934,770 and nil were recognized for the years ended December 31, 2015 and 2016, respectively.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Investment******Cost Method Investment***

In accordance with ASC subtopic 325-20 ("ASC 325-20"), *Investments-Other: Cost Method Investments*, for investments in an investee over which the Company does not have significant influence and which do not have readily determinable fair value, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company's share of earnings since its investment. The Company accounted for its investment in accordance with ASC subtopic 320-10 ("ASC 320-10"), *Investments-Debt and Equity Securities- Overall*. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

No impairment was recognized for each of the three years ended December 31, 2016.

***Revenue recognition***

The Group recognizes revenue from the sales of rice, flavoring, oil, seafood, wine and other types of generic food and beverage products through its online platform *www.ccjoin.com*. The website also serves as an online platform to connect third party vendors and customers. The Group recognizes revenue when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

The Group recognizes revenue when the customers confirm the acceptance of the goods once they receive the delivered goods. The sales returns are considered and estimated when the related revenue was recognized.

Revenue is recorded net of surcharges and value-added tax ("VAT") and related surcharges.

The Group primarily generates revenue from online direct sales and online platform services.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Revenue recognition (Continued)******Online direct sales***

The Group primarily sells rice, flavoring, oil, seafood, wine and other products relating to catering and hotel industries through online direct sales. There is a separate channel on the Group's online platform designated for the Group's online direct sales, and the Group records revenue from online direct sales on a gross basis as the Group acts as the principal in these arrangements: it is the primary obligor in the sales arrangements, has latitude in establishing prices and has discretion in suppliers' selection. On certain transactions, the Group also retains some of general inventory risk and physical inventory loss risk.

***Online platform services***

The Group also provides the online platform services to connect third-party sellers and purchasers for their transactions via its online marketplace. Online platform sales are made from the online stores under the third-party sellers' names, and the Group records the related revenue on a net basis as the Group acts as the agent in these arrangements: it is not the primary obligor, does not bear inventory risk, and does not have the ability to establish the price or discretion in supplier selection. For the years ended December 31, 2015 and 2016, revenues related to the online platform services was nil, as the Group did not charge any service fees to the third-party sellers and purchasers.

***Value-added tax***

Value added tax ("VAT") is calculated at 13% on the revenue from primary agricultural products and 17% on the revenue from sales of other products. The Group reports revenue net of VAT. WFOE, VIE and VIE's subsidiaries that are VAT general tax payers are allowed to offset qualified VAT paid against their output VAT liabilities.

***Cost of revenue***

Costs of revenues primarily consist of purchased cost of the products sold related to online direct sales and payroll of the operating personnel.

***Advertising and promotional expenses***

Advertising and promotional expenses, including advertisements through various form of media and kinds of marketing and promotional activities, are included in "Selling and marketing expense" in the consolidated statements of operations and are expensed when incurred. Advertising and marketing expenses for the years ended December 31, 2014, 2015 and 2016 are nil, \$131,486 and \$498,045, respectively.

***Operating leases***

Leases where substantially all the rewards and risks of the ownership of the assets remain with the leasing companies are accounted for as operating leases. Payments made for the operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease term and have been included in the operating expenses in the consolidated statements of operations. In 2016, the Group entered into a 15-year lease arrangement for its new headquarter in Shanghai, China, which provided a seven month rent free period. As of December 31, 2015 and 2016, the Company recognized non-current liabilities related to deferred rent holiday of nil and \$1,086,342, respectively.



**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Income taxes***

The Company follows the liability method in accounting for income taxes in accordance to ASC topic 740 (“ASC 740”), *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

The Company applies the provision of ASC 740 to account for uncertainty in income taxes. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements.

The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of operations.

***Loyalty program***

In 2016, the Company launched a customer loyalty program to certain qualified customers, who can earn customer credits from purchases if their annual spending with the Group exceeds RMB10 million. The customers can redeem the earned credits for gift merchandise, and the Group accounts for such credits by recording a liability and corresponding selling expenses for the estimated incremental cost of outstanding credits earned that are expected to be redeemed.

During 2016, the Group negotiated settlement of earned loyalty credits with 13 of its customers in ordinary shares of the Company. As part of the settlement, the Group agreed to issue 4.42 million of its ordinary shares, and recognized \$1,377,503 in paid-in capital and selling expenses based on the grant date fair value of the ordinary shares. The Group is not legally obligated, or expects to continue, redemption of the credits for the ordinary shares in the future.

***Share-based payments***

Share-based payment awards with employees are measured based on the grant date fair value of the equity instrument issued, and recognized as compensation costs net of an estimated forfeiture rate using the straight-line method over the requisite service period, which is generally the vesting period of the options, with a corresponding impact reflected in additional paid-in capital. For share-based payment awards with market conditions, such market conditions are included in the determination of the estimated grant-date fair value. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or is expected to differ, from such estimate. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expenses to be recognized in future years.

A change in any of the terms or conditions of share-based payment awards is accounted for as a modification of awards. The Company measures the incremental compensation cost of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified, based on the share price and other pertinent factors at the modification date. For vested awards, the Company recognizes incremental compensation cost in the period the modification occurred. For unvested awards, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.



**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Net loss per share***

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

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

Diluted loss per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Group had convertible redeemable participating preferred shares, which have been automatically converted into ordinary shares upon the IPO of the Company, stock options and restricted share units, which could potentially dilute basic loss per share in the future. To calculate the number of shares for diluted loss per ordinary share, the effect of the convertible redeemable participating preferred shares is computed using the as-if-converted method; the effect of the stock options and restricted share units is computed using the treasury stock method. Potential ordinary shares in the diluted net loss per share computation are excluded in periods of losses from continuing operations, as their effect would be anti-dilutive.

***Comprehensive loss***

Comprehensive loss is defined as the decrease in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Comprehensive loss is reported in the consolidated statements of comprehensive loss, including net loss and foreign currency translation adjustments and is presented net of tax.

***Segment reporting***

The Company follows ASC 280, *Segment Reporting*. The Company's Chief Executive Officer or chief operating decision-maker reviews the consolidated financial results when making decisions about allocating resources and assessing the performance of the Company as a whole and hence, the Company has only one reportable segment. The Company operates and manages its business as a single segment through the provision of integrated services to suppliers and consumers in the catering and hotel industries. As the Company's long-lived assets are substantially all located in the PRC and substantially all the Company's revenues are derived from within the PRC, no geographical segments are presented.

***Fair value***

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

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Fair value (Continued)*

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1-inputs are based upon quoted prices for instruments traded in active markets.

Level 2-inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based calculation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, cash flow models, and similar techniques.

*Fair value of financial instruments*

Financial instruments include cash and cash equivalents, amounts due from/to related parties, accounts receivable, accounts payable and investment. The carrying values of cash, amounts due from/to related parties, accounts receivable and accounts payable approximate their fair values reported in the consolidated balance sheets due to the short-term maturities. The Company determined that it was not practicable to estimate the fair value of its cost method investment as of December 31, 2016 and measures the cost method investment at fair value on a nonrecurring basis only if an impairment charge were to be recognized.

Financial assets and liabilities measured at fair value on a non-recurring basis include acquired assets and liabilities and goodwill based on Level 3 inputs in connection with business acquisition set out in Note 5.

*Recently accounting pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is originally effective for the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period for public entities; and, annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 for all other entities. ASU 2015-14, *Revenue from Contracts with Customers*, defers the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period for public entities; and, annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019 for all other entities. Early adoption is permitted to the original effective date. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Recently accounting pronouncements (Continued)*

In July 2015, the FASB issued ASU No. 2015-11 (“ASU 2015-11”), *Inventory (Topic 330): Simplifying the Measurement of Inventory*. Under ASU 2015-11, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for public entities for fiscal years and interim periods within those fiscal years, as well as for all other entities for fiscal years beginning after December 15, 2016, and, interim periods within annual periods beginning after December 15, 2017 for all other entities. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 (“ASU 2015-17”), *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented for public entities; and, annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 for all other entities. Early adoption is permitted. After the adoption of ASU 2015-17, all the current deferred tax assets will be reclassified as noncurrent deferred tax asset on the consolidated balance sheet.

In January 2016, the FASB issued ASU No. 2016-01 (“ASU 2016-01”), *Financial Instruments*. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years; and for all other entities, are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Recently accounting pronouncements (Continued)*

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), *Leases*. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public business entities for annual reporting periods and interim periods within those years beginning after December 15, 2018; and, annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020 for all other entities. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, (“ASU 2016-08”) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. This guidance will be effective at the same date as the adoption of ASU 2014-09. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 (“ASU 2016-09”), *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 involves several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and accounting for forfeitures. Some of the areas apply only to nonpublic entities. In terms of accounting for forfeitures, companies will have to elect whether to account for forfeitures of share-based payments by (1) recognizing forfeitures of awards as they occur (e.g., when an award does not vest because the employee leaves the company) or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The Company will make an election at the entity level using a modified retrospective transition method, with a cumulative-effect adjustment to retained earnings. ASU 2016-09 is effective for public business entities for annual reporting period and interim periods within those years beginning after December 15, 2016; and, annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 for all other entities. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Recently accounting pronouncements (Continued)*

In January 2017, FASB has issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The ASU affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods for public entities; and, annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019 for all other entities.

In January 2017, the FASB issued ASU No. 2017-04 (“ASU 2017-04”), *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. This standard is effective for public business entities in the first quarter of 2020 and for all other entities in the first quarter of 2022. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05 (“ASU 2017-05”), *Other income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*. ASU 2017-05 clarifies the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The update is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period; and, annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019 for all other entities. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**4. CONCENTRATION OF RISK***Credit risk*

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents. The Group places its cash and cash equivalents with financial institutions with high-credit ratings and quality.

Customers accounting for 10% or more of total revenue are:

Customer	For the years ended December 31,	
	2015	2016
A	28.4%	*
B	*	20.4%

Customers accounting for 10% or more of accounts receivable are:

Customer	As of December 31,	
	2015	2016
A	99.9%	0%
B	*	37.3%
C	*	19.0%
D	*	17.2%
E	*	11.9%

\* Less than 10%

**5. BUSINESS ACQUISITION**

On June 5, 2015, the Company entered into an agreement to acquire JMU Investment with a consideration of 741,422,780 ordinary shares of the Company and \$30,000,000 in cash (the "Acquisition").

Pursuant to the share purchase agreement, 741,422,780 shares were issued as part of consideration of which 311,842,983 was subject to lock-up period. One third of the lock-up shares will be removed on each anniversary date of the issuance date for three years. For those shares which are not subject to lock-up, the Company used the stock price of \$10.39 per ADS as of the acquisition date to determine the fair value. For those shares that are subject to lock-up, an average of 28% discount rate to the stock price has been used to determine the value of the consideration so as to reflect the impact of the restriction for each of the three years from the issuance date.

The transaction was considered as a business acquisition. The Company was determined as the accounting acquirer based on the facts and circumstances of the transaction including the Company's payment of cash consideration for the equity interests of JMU Investment.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**5. BUSINESS ACQUISITION (CONTINUED)**

Accordingly, the purchase method of accounting has been applied. The acquired net assets were recorded at their estimated fair values on the acquisition date. The acquired goodwill is not deductible for tax purposes.

The preliminary purchase price for the acquisition was allocated as follows:

	<u>US\$</u>	<u>Amortization Period</u>
Net tangible assets	28,793,669	
Intangible assets:		
Trade name/domain name	16,228,000	10 years
Non-compete agreement	10,096,000	4.5 years
Online platform	1,364,000	5 years
Customer relationships	<u>27,760,000</u>	5-10 years
Total	<u>55,448,000</u>	
Deferred tax liabilities	(13,862,000)	
Goodwill	<u>336,585,270</u>	
Total consideration	<u><u>406,964,939</u></u>	

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under US GAAP, and comprise of (a) the assembled work force and (b) the expected but unidentifiable business growth resulting from the Acquisition.

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2014 and 2015 of the Group as if the acquisition had occurred on January 1, 2014. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the period indicated, nor is it indicative of future operating results:

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
	(unaudited)	(unaudited)
Pro forma revenues	68,298	11,522,525
Pro forma net loss	(16,439,806)	(115,066,695)
Pro forma net loss per ordinary share-basic	(0.02)	(0.09)
Pro forma net loss per ordinary share-diluted	(0.02)	(0.09)

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**6. DISCONTINUED OPERATIONS**

The disposal described in Note 1 represents a strategic shift and has a major effect on the Group's results of operations. The Group Buying Entities were accounted as discontinued operations in the consolidated financial statements for the years ended December 31, 2014 and 2015. A gain of \$47,390,421 was recognized on the disposal.

The financial results of the Group Buying Entities are set out below:

	<b>For the years ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Net revenues	30,073,452	16,832,352
Cost of revenues	(7,040,383)	(2,927,148)
Gross profit	23,033,069	13,905,204
Operating expenses	(62,378,258)	(50,212,995)
Loss from operations	(39,345,189)	(36,307,791)
Gain from disposal of Group Buying Entities	-	47,390,421
Interest income	6,699	1,904
Interest expense	(11,798)	-
Other expenses, net	(196,288)	(8,599)
(Loss)/income before income tax	(39,546,576)	11,075,935
Provision for income tax	-	-
(Loss)/income from discontinuing operations attributable to owners of the Company	<u>(39,546,576)</u>	<u>11,075,935</u>

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**7. ACCOUNTS RECEIVABLE, NET**

Accounts receivable and allowance for doubtful accounts consist of the following:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Accounts receivable	3,748,398	1,645,237
Less: allowance for doubtful accounts	-	-
	<u>3,748,398</u>	<u>1,645,237</u>

As of December 31, 2015 and 2016, all accounts receivable are due from third party customers for online direct sales.

**8. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consisted of the following:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Advance to suppliers	2,475,752	7,124,222
Prepaid rental expenses and other deposits	865,219	625,726
Amount due from third parties	4,917,068	286,333
Advance to employees	245,897	215,574
Receivables from third-party purchasers (i)	16,510,091	-
Prepaid professional service fee	34,002	-
Other current assets	<u>233,405</u>	<u>425,775</u>
	<u>25,281,434</u>	<u>8,677,630</u>

- (i) In connection with the online platform services, receivables from third-party purchasers represented the total amounts paid to third-party sellers on behalf of third-party purchasers through the Group's online platform in a period less than one week without any charges.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**9. PROPERTY AND EQUIPMENT, NET**

Property and equipment consists of the following:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Leasehold improvement	-	1,583,641
Computer equipment	571,564	566,963
Office equipment	-	162,462
Total	571,564	2,313,066
Less: accumulated depreciation	(93,489)	(335,407)
Property and equipment, net	<u>478,075</u>	<u>1,977,659</u>

For the years ended December 31, 2014, 2015 and 2016, depreciation expense was nil, \$63,981 and \$259,307, respectively. No impairment loss was recognized for the years ended December 31, 2014, 2015 and 2016.

**10. ACQUIRED INTANGIBLE ASSETS, NET**

Acquired intangible assets consists of the following:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Trade name/domain name	16,228,000	14,330,156
Non-compete agreement	10,096,000	8,915,286
Online platform	1,364,000	1,204,482
Customer relationship	27,760,000	24,514,105
Total	55,448,000	48,964,029
Less: Accumulated amortization	(4,885,055)	(12,689,791)
Acquired intangible assets, net	<u>50,562,945</u>	<u>36,274,238</u>

The movement of acquired intangible assets is as follow:

	<u>US\$</u>
Balance as of January 1, 2015	-
Acquisition	55,448,000
Amortization	(4,885,055)
Balance as of December 31, 2015	<u>50,562,945</u>
Amortization	(8,640,885)
Foreign currency translation adjustment	(5,647,822)
Balance as of December 31, 2016	<u>36,274,238</u>



**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**10. ACQUIRED INTANGIBLE ASSETS, NET (CONTINUED)**

The amortization expense of acquired intangible assets was nil, \$4,885,055 and \$8,640,885 for the years ended December 31, 2014, 2015 and 2016, respectively. No impairment was provided for each of the three years ended December 31, 2016.

The estimated annual amortization expense for each of the five succeeding fiscal years is as follow:

<b>For the years ending December 31,</b>	<b>US\$</b>
2017	8,132,191
2018	8,132,191
2019	8,012,449
2020	3,745,307
2021	1,858,475

**11. INVESTMENT**

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>Cost investment:</b>		
Investment in Cold Chain Link Global (Shanghai) Logistic Co., Ltd. ("CCLG")	-	720,150
Less: accumulated impairment	-	-
	<u>-</u>	<u>720,150</u>

In May 2016, the VIE completed its acquisition of 10% equity interest in CCLG. The Board of Directors of CCLG shall consist of three directors, whereby the VIE may appoint one director. As the Group's investment contains a substantive liquidation preference, the investment in CCLG is not considered in-substance common stock, and the Company has accounted for the investment as a cost method investment carried at cost.

As of December 31, 2016, the Group has paid RMB5 million (US\$0.72 million, equivalently) to CCLG and there were no indicators of impairment noted associated with the investment.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**12. GOODWILL**

The changes in the goodwill balance for the years ended December 31, 2015 and 2016 is as follows:

	US\$
Balance as of January 1, 2015	-
Goodwill acquired	336,585,270
Impairment	<u>(85,934,770)</u>
Balance as of December 31, 2015	<u>250,650,500</u>
Foreign currency translation adjustment	<u>(29,313,343)</u>
Balance as of December 31, 2016	<u>221,337,157</u>

The Group has one reporting unit and applies discounted cash flows for its impairment test as of December 31 for each year. The Group recorded an impairment loss of \$85,934,770 for the year ended December 31, 2015, as the estimated fair value of the reporting unit was below the carrying amount of its net assets. No impairment loss was recognized for goodwill for the year ended December 31, 2016.

**13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consisted of the following:

	<u>As of December 31,</u>	
	<u>2015</u>	<u>2016</u>
Provision for loyalty program (i)	-	2,752,151
Accrued payroll and welfare	1,219,730	1,910,519
Accrued marketing expenses	-	1,555,524
Payables for professional fees	858,577	1,261,405
Payables to third-party sellers (ii)	17,163,716	899,950
Payables for rental fee	639,753	164,234
Uncertain tax positions	-	146,368
Others	88,680	343,107
Total accrued expenses and other current liabilities	<u>19,970,456</u>	<u>9,033,258</u>

(i) The Group launched its loyalty programs to certain customers in 2016.

(ii) In connection with the online platform services, payable to third-party sellers represented the total amounts received from third-party purchasers on behalf of third-party sellers through the Group's online platform in a period less than one week without any charges.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**14. INCOME TAXES***Cayman*

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains.

*Hong Kong*

Under the Hong Kong tax laws, the Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax rate at 16.5%. No provision for Hong Kong profits tax was made for the years ended December 31, 2014, 2015 and 2016 on the basis that the Group's Hong Kong subsidiaries did not have any assessable profits arising in or derived from Hong Kong for those years.

*PRC*

The enterprise income tax ("EIT") law applies a uniform 25% EIT rate to both foreign invested enterprises and domestic enterprises. The EIT rate for the Group's entities operating in the PRC are 25%.

No taxable income was generated for both domestic and foreign entities of the Group during each of the three years ended December 31, 2016.

Credit for income tax consisted of the following:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>Income tax benefits:</b>		
Current income tax expenses	-	(146,368)
Deferred income tax benefits	1,249,696	2,379,825
Total	<u>1,249,696</u>	<u>2,233,457</u>

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**14. INCOME TAXES (CONTINUED)**

The significant components of the Group's deferred tax assets and liabilities were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>Deferred tax assets</b>		
Current:		
Accruals	-	1,879,890
Valuation allowance	-	(1,816,604)
Net current deferred tax assets	-	63,286
Non-current:		
Net operating loss carry forwards	3,611,141	5,797,149
Valuation allowance	(3,611,141)	(5,640,833)
Net non-current deferred tax assets	-	156,316
<b>Total deferred tax assets</b>	<b>-</b>	<b>219,602</b>
<b>Deferred tax liabilities</b>		
Non-current:		
Acquired intangible assets	12,640,736	9,068,560
<b>Total deferred tax liabilities</b>	<b>12,640,736</b>	<b>9,068,560</b>

The Group considers the following factors, among other matters, when determining whether some portion or all of the deferred tax assets will more likely than not be realized: the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward years, the Group's experience with tax attributes expiring unused and tax planning alternatives. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward years provided for in the tax law.

The Group incurred net operating losses carry forwards of nil, \$8,064,039 and \$8,744,032 from the Group's PRC entities for the years ended December 31, 2014, 2015 and 2016, respectively, which would expire on various dates through 2020 to 2021. The Group operates its business through its subsidiaries, its VIE and its subsidiaries. The Group does not file consolidated tax returns, therefore, losses from individual subsidiaries or the VIE and its subsidiaries may not be used to offset other subsidiaries' or VIE's earnings within the Group. Valuation allowance is considered on each individual subsidiary and VIE basis.

As of December 31, 2015 and 2016, valuation allowance was \$3,611,141 and \$7,457,437, respectively, which were provided against deferred tax assets as it is considered more likely than not that the relevant deferred tax assets will not be realized in the foreseeable future.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**14. INCOME TAXES (CONTINUED)**

Reconciliation between the income taxes expense (benefit) computed by applying the PRC tax rate to loss before income taxes and the actual credit for income taxes is as follows:

	<b>For the year ended December</b>	
	<b>31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Net loss before provision for income taxes	(105,895,819)	(27,526,602)
Statutory tax rates in the PRC	<u>25%</u>	<u>25%</u>
Income tax at statutory tax rate	(26,473,955)	(6,881,651)
Expenses not deductible for tax purposes		
Goodwill impairment	21,483,693	-
Entertainment expenses exceeded tax limit	7,687	21,533
Other expenses exceeded tax limit	226,428	-
Effect of income tax rate difference in other jurisdiction	1,551,150	633,997
Changes in unrecognized tax benefits	-	146,368
Changes of valuation allowance	1,955,301	3,846,296
<b>Income tax benefits</b>	<b><u>(1,249,696)</u></b>	<b><u>(2,233,457)</u></b>

The EIT Law includes a provision specifying that legal entities organized outside the PRC will be considered residents for Chinese income tax purposes if their place of effective management or control is within the PRC. If legal entities organized outside the PRC were considered residents for Chinese income tax purpose, they would become subject to the EIT Law on their worldwide income. This would cause any income legal entities organized outside the PRC earned to be subject to the PRC's 25% EIT. The Implementation Rules to EIT Law provide that non-resident legal entities will be considered as PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. reside within the PRC.

Pursuant to the additional guidance released by the Chinese government on April 22, 2009 and issued bulletin on August 3, 2011 which provide more guidance on the implementation, management does not believe that the legal entities organized outside the PRC should be characterized as the PRC tax residents for EIT Law purposes.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**14. INCOME TAXES (CONTINUED)***Unrecognized Tax Benefits*

Under the EIT Law and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. The Cayman Islands, where the Company are incorporated, does not have a tax treaty with the PRC.

There were no aggregate undistributed earnings of the Company's subsidiaries, VIE and VIE's subsidiaries located in the PRC available for dividend distribution. Therefore, no deferred tax liability has been accrued for the Chinese dividend withholding taxes that might be payable upon the distribution of aggregate undistributed earnings as of December 31, 2015 and 2016.

The impact of an uncertain tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

As of December 31, 2015 and 2016, the Company recorded an unrecognized tax benefit of \$70,979 and \$271,019, respectively, of which \$70,979 and \$124,651, respectively, are presented on a net basis against the deferred tax assets related to tax loss carry forward on the consolidated balance sheets. The unrecognized tax benefits is mainly related from under reported income. The amount of unrecognized tax benefits will change in the next 12 months, pending clarification of current tax law or audit by tax authorities, however, an estimate of the range of the possible change cannot be made at this time.

A roll-forward of unrecognized tax benefits is as follows:

	<b><u>For the years ended</u></b>
	<b><u>December 31, 2016</u></b>
	<b>US\$</b>
Balance at beginning of the year	70,979
Addition based on tax positions related to the current year	200,040
Balance at end of the year	<u>271,019</u>

In the years ended December 31, 2015 and 2016, the Company did not record any interest accrued in relation to the unrecognized tax benefit in income tax expense.

Since the incorporation, the relevant tax authorities of the Group's subsidiaries, VIE and VIE's subsidiaries located in the PRC have not conducted a tax examination. In accordance with relevant PRC tax administration laws, tax years from 2014 to 2016 of the Group's PRC subsidiaries, VIE and VIE's subsidiaries, remain subject to tax audits as of December 31, 2016, at the tax authority's discretion.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**15. ORDINARY SHARES**

On April 8, 2015, the Company completed its IPO on NASDAQ by offering 4,000,000 ADSs, representing 72 million ordinary shares at price of \$10 per ADS. On April 27, 2015, the Company issued an additional 220,000 ADSs, representing 3.96 million of ordinary shares to the underwriter for exercising the overallotment option at price of \$10 per ADS. The total proceeds from issuance of ordinary shares upon IPO is \$37,294,600, after deducting the IPO related cost of \$3,000,000.

Upon the completion of the IPO, all of the Company's then outstanding Series A-1, Series A-2 and Series B preferred shares were automatically converted into 12,202,988, 122,029,877 and 30,507,471 ordinary shares respectively, and immediately after the completion of the IPO, the indebtedness owed to Mr. Maodong Xu ("Mr. Xu"), amounting to \$69.4 million was converted into 124,835,802 ordinary shares.

On June 8, 2015, the Company issued 741,422,780 ordinary shares to JMU's original shareholders for the acquisition of JMU (see Note 5). In addition, the Company initially agreed to issue 72,000,000 ordinary shares of the Company to Mr. Xu at a purchase price of \$0.5556 per share, for a total purchase price of \$40,000,000. On September 7, 2015, the Company and Mr. Xu reduced the number of shares to be purchased through a supplemental agreement resulting in a final subscription amount of \$15,000,000 for 27,000,000 shares. On the same date, the Company issued an additional 27,000,000 ordinary shares to Mr. Xu in relation to his additional subscription.

On September 27, 2015, the Company issued and transferred 38,363,112 ordinary shares to its depository bank representing 2,131,284 ADSs, to be issued to employees and former-employees upon the exercise of their vested share options and RSUs.

As of December 31, 2015 and 2016, 6,866,280 and 37,800,388 ordinary shares, respectively, out of these 38,363,112 ordinary shares had been issued to employees and former-employees upon the exercise of share options and the vest of RSUs. Therefore, as of December 31, 2015 and 2016, 31,496,832 and 562,724 common shares, respectively, remained for future issuance.

## **JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

### **16. CONVERTIBLE REDEEMABLE PREFERRED SHARES**

On April 3, 2011, Wowo Group Limited ("Wowo BVI") issued an aggregate of 5,489,604 Series A-1 Convertible Redeemable Preferred Shares ("Series A-1 Preferred Shares") to an investor at an issuance price of \$0.9108 per Series A-1 Preferred Share for total cash proceeds of \$5,000,000 before issuance cost of \$18,072.

On May 25, June 8, and July 5, 2011, Wowo BVI issued 30,803,678, 2,053,580 and 18,482,206 Series A-2 Convertible Redeemable Preferred Shares ("Series A-2 Preferred Shares") to investors at an issuance price of \$0.9739 per Series A-2 Preferred Share for total cash proceeds of \$30,000,000, \$2,000,000 and \$18,000,000, respectively. The related issuance cost was \$192,149 and deducted from proceeds of Series A-2 Preferred Shares.

On February 29, 2012, the Company issued an aggregate of 30,507,471 Series B Convertible Redeemable Preferred Shares ("Series B Preferred Shares") to its existing shareholders at an issuance price of \$0.4097 per Series B Preferred Shares for total cash proceeds of \$12,500,000. The related issuance cost was \$31,153 and deducted from proceeds of Series B Preferred Shares. Meanwhile, the Company issued an aggregate of 6,713,384 Series A-1 Preferred Shares and 70,690,413 Series A-2 Preferred Shares to existing Series A-1 and Series A-2 investors for no consideration, and the conversion price of Series A-1 Preferred Shares and Series A-2 Preferred Shares were adjusted to \$0.4097. A beneficial conversion feature of \$43,234,050 was recognized as the adjusted conversion price was lower than the fair value of the ordinary shares on respective issuance dates for Series A-1 and Series A-2 Preferred Shares.

Each Series A and Series B convertible preferred share had been automatically converted into one ordinary share upon the qualified IPO on April 8, 2015.

The rights, preferences, privileges and restriction granted to and imposed on the Series A-1, A-2 (collectively referred to as "Series A Preferred Shares") and Series B Preferred Shares (collectively, "Preferred Shares") were as follows:

#### *Voting rights*

Each Preferred Share carried a number of votes equal to the number of Ordinary Shares then issuable upon its conversion into Ordinary Shares. The Preferred Shares shall generally vote together with the Ordinary Shares and not as a separate class.

According to the Third Amended Memorandum and Article of Association after above issuance of Series A-1, Series A-2 and Series B Preferred Shares, the number of the Board of directors of the Company was four, including one appointed by preferred shareholders and three appointed by ordinary shareholders.

#### *Dividends*

No dividends shall be declared or paid on the ordinary shares or any future series of Preferred Shares, unless and until a dividend in like amount is declared and paid on each outstanding Preferred Share on an as-if converted basis.

Each holder of Series B Preferred Shares shall be entitled to receive, on annual basis, preferential, non-cumulative dividends at the rate equal to the greater of (i) 8% of the Series B Preferred Share Issue Price, (ii) the dividend that would be paid with respect to the Ordinary Shares into which the Series B Preferred Shares could be converted.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**16. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

After the full preferential dividends for Series B Preferred Shares had been paid on all outstanding Series B Preferred Shares, each holder of Series A-2 Preferred Shares shall be entitled to receive, on an annual basis, preferential, non-cumulative dividends at the rate equal to the greater of (i) 8% of the Series A-2 Preferred Share Issue Price, (ii) the dividend that would be paid with respect to the Ordinary Shares into which the Series A-2 Preferred Shares could be converted.

After the full preferential dividends for Series B and Series A-2 Preferred Shares had been paid on all outstanding Series B and Series A-2 Preferred Shares, each holder of Series A-1 Preferred Shares shall be entitled to receive, on an annual basis, preferential, non-cumulative dividends at the rate equal to the greater of (i) 8% of the Series A-1 Preferred Share Issue Price, (ii) the dividend that would be paid with respect to the Ordinary Shares into which the Series A-1 Preferred Shares could be converted.

In addition to any dividend pursuant to above, the holders of Preferred Shares shall be entitled to receive on a pari passu basis, when as and if declared at the sole discretion of the Board, but only out of funds that are legally available therefor, cash dividends at the rate or in the amount as the Board considers appropriate.

*Liquidation preference*

In the event of any liquidation, dissolution or winding up of the Company, each holder of Series B Preferred Shares shall be entitled to receive, prior to any distribution to the holders of Series A Preferred Shares, Ordinary Shares or any other class or series of shares then outstanding, an amount per Series B Preferred Share equal to 100% of Series B Issue Price, plus all declared but unpaid dividends ("Series A-2 Preference Amount").

After the full Series B Preference Amount had been paid on all outstanding Series B Preferred Shares, the each holder of Series A-2 Preferred Shares shall be entitled to receive, prior to any distribution to the holders of Ordinary Shares or any other class or series of shares then outstanding, an amount per Series A-2 Preferred Share equal to 100% of Series A-2 Issue Price, plus all declared but unpaid dividends ("Series A-2 Preference Amount").

After the full Series A-2 Preference Amount had been paid on all outstanding Series A-2 Preferred Shares, the each holder of Series A-1 Preferred Shares shall be entitled to receive, prior to any distribution to the holders of Ordinary Shares or any other class or series of shares then outstanding, an amount per Series A-1 Preferred Share equal to 100% of Series A-1 Issue Price, plus all declared but unpaid dividends ("Series A-1 Preference Amount").

After the full Series B and Series A Preference Amount had been paid, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed pro rata among the holders of Preferred Shares (on an as-converted basis) and the holders of the Ordinary Shares.

In the event the Company proposed to distribute assets other than cash in connection with any liquidation, dissolution or winding up of the Company, the value of the assets to be distributed to the holders of Preferred Shares and Ordinary Shares shall be determined by the Board.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**16. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

*Conversion*

Optional conversion

Each holder of Preferred Shares shall have the right to convert all or any portion of the Preferred Shares into Ordinary Shares at any time. The conversion rate for the Series B Preferred Shares and Series A Preferred Shares shall be determined by dividing the Series B and Series A Issue Price for each of the Series B Preferred Shares and Series A Preferred Shares by its conversion price, respectively, provided that in the event of any share splits, share combinations, share dividends, recapitalizations and similar events, the initial Series B and Series A Conversion Price shall be adjusted accordingly, respectively.

Automatic conversion

The Preferred Shares would automatically be converted into Ordinary Shares, at its then respective Conversion Prices, upon a Qualified IPO, which is defined as an initial public offering of securities of the Company on a recognized regional or national exchange or quotation system in the United States, Hong Kong, the PRC or any other jurisdiction approved by the investors, and the aggregate proceeds to the Company in such initial public offering shall be not less than \$100,000,000, unless otherwise agreed upon by the Investors and the Company (the "Qualified IPO").

No adjustment in the Series B Conversion Price shall be made in respect of the issuance of additional ordinary shares unless the consideration per share for an additional ordinary share issued or deemed to be issued by the Company is less than the Series B Conversion Price. If the Company issues any additional ordinary shares and 0.85 times of the subscription price less than Series B Conversion Price, the Series B Conversion Price shall be reduced to a price (to the nearest one thousandth (1/1000) of a cent) equal to 0.85 times of the consideration per share for the additional ordinary shares issued.

No adjustment in the Series A Preferred Shares Conversion Price shall be made in respect of the issuance of additional ordinary shares unless the consideration per share for an additional ordinary share issued or deemed to be issued by the Company is less than the Series A Conversion Price. If the Company issues any additional ordinary shares and 0.85 times of the subscription price less than Series A Conversion Price, the Series A Conversion Price shall be reduced to a price (to the nearest one thousandth (1/1000) of a cent) equal to 0.85 times of the consideration per share for the additional Ordinary Shares issued.

The conversion price will be adjusted for share dividends, subdivisions, combinations or consolidations of ordinary shares, other distributions, reclassification, exchange and substitution.

The Company will protect the Conversion Rights of the holders of the Preferred Shares against impairment, and not amend its Memorandum and Articles of Association or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by the Company.

The Group had determined that there was embedded beneficial conversion feature of \$43,234,050 attributable to the Series A-1 and Series A-2 Preferred Shares because the adjusted conversion price of Series A-1 and Series A-2 Preferred Shares is lower than the fair value of the Group's ordinary share as of respective issuance dates and there was no embedded beneficial conversion feature attributable to the Series B Preferred Shares because the conversion price of the Series B Preferred Shares is higher than the fair value of the Group's ordinary share as of the issuance date.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**16. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

The initial conversion price of Series B and Series A Preferred Shares shall be their Issue Price, therefore, the initial conversion rate was one for one. The conversion rate for each class of preferred shares were both one for one as of December 31, 2014.

The Group assessed the probability of redemption and accrues proper accretion over the period from the date of issuance to the earliest redemption date of the Series A-1 Preferred Shares, Series A-2 Preferred Shares and Series B Preferred Shares using the effective interest rate method. The Group recognized \$40,814,509 and \$2,365,351 as accretion for Series A-1 Preferred Shares, Series A-2 Preferred Shares and Series B Preferred Shares for the years ended December 31, 2014 and 2015, respectively.

On April 8, 2015, all the issued and outstanding Series A-1, Series A-2 and Series B preferred shares were automatically converted into 12,202,988, 122,029,877, 30,507,471 ordinary shares upon the IPO of the Company, respectively.

**17. FAIR VALUE MEASUREMENT***Measured at fair value on a recurring basis*

The Group had no financial assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2015 and 2016.

*Measured at fair value on a non-recurring basis*

The Group measures the acquired assets and liabilities at fair value on a nonrecurring basis as result of the business acquisition as set forth in Note 5. The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection on the discounted future cash flow and the discount rate.

The Group measures goodwill at fair value on a nonrecurring basis when it is annually evaluated or whenever events or changes in circumstances indicate that carrying amount of a reporting unit exceeds its fair value. The fair value was determined using models with significant unobservable inputs (Level 3 inputs) which primarily included management projections on the discounted future cash flow analysis including the discount rate using the weighted average cost of capital of 17% and 17.5% as of December 31, 2015 and 2016, respectively, and expected revenue growth rates.

An impairment loss of nil, \$85,934,770 and nil were recognized for the year ended December 31, 2014, 2015 and 2016, respectively.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**18. SHARE BASED COMPENSATION**

*2011 Share Incentive Plan*

On February 1, 2011, the Board of Directors approved the Company 2011 Share Incentive Plan (“2011 Plan”). The 2011 Plan provides for the grant of options, restricted shares, and other share-based awards.

The Group recognized compensation cost on the share options to employees under 2011 Plan on a straight-line basis over the requisite service period. The options granted during 2012 and 2013 vest ratably over 48 months and the options granted during 2014 vest on the first anniversary of the date of grant.

On July 27, 2015, the Board of Directors approved to grant 28,841,700 Restricted Share Units (“RSUs”) awards pursuant to the 2011 Plan. Each RSU represents the contingent right of the participant to receive an ordinary share. Each RSU is an agreement to issue ordinary share at the time the award vests with zero exercise price. The issued RSUs will vest 50%, and 50%, respectively, on the each anniversary of the grant date. The Group recognizes share-based compensation cost on the RSUs on a straight-line basis over the 2 years from the grant date.

On September 1, 2015, the Board of Directors approved that all 3,312,618 unvested options and 28,639,900 RSUs granted under 2011 Plan became vested and exercisable as of September 1, 2015. Meanwhile, the Board of Directors also approved that the all vested and accelerated vested options and RSUs shall be exercised within 2 years from the acceleration date, i.e. September 1, 2017.

On July 1, 2016, under the 2011 Plan, the Board of Directors approved to grant 32,028,700 share options with exercise price of \$0.20 per share to its employees and managements.

On July 1, 2016, the Board of Directors also approved to grant 10,430,000 RSUs awards pursuant to the 2011 Plan. Each RSU represents the contingent right of the participant to receive an ordinary share. Each RSU is an agreement to issue ordinary share at the time the award vests with zero exercise price. The issued RSUs will vest 100% when the following two conditions are both met: a) on and after the first anniversary of the grant date and b) the market price of the Company’s ADS is not less than \$7 per ADS. The Group recognizes share-based compensation cost on the RSUs over the 12 months from the grant date.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**18. SHARE BASED COMPENSATION (CONTINUED)***(a) Restricted Shares Award Granted to Employees*

The following table summarizes the Company's restricted shares award issued under 2011 Plan:

	<u>Outstanding RSUs</u>	
	<u>Number of RSUs</u>	<u>Weighted average grant date fair value (US\$)</u>
Unvested as of January 1, 2015	-	-
Granted	28,841,700	0.265
Forfeited and expired	(201,800)	0.265
Vested	<u>28,639,900</u>	<u>0.265</u>
Unvested as of December 31, 2015	<u>-</u>	<u>-</u>
Granted	10,430,000	0.133
Unvested as of December 31, 2016	<u>10,430,000</u>	<u>0.133</u>
Expect to vest as of December 31, 2016	<u>10,430,000</u>	<u>0.133</u>

*(b) Options Granted to Employees*

The following table summarizes the Company's employee share options under 2011 Plan:

<u>Options</u>	<u>Number of Share options</u>	<u>Weighted average exercise price US\$</u>	<u>Weighted average grant date fair value US\$</u>	<u>Weighted average remaining contractual life (Years)</u>	<u>Aggregate Intrinsic value US\$</u>
Outstanding as of January 1, 2015	39,249,022	0.07	0.11	2.51	3,512,311
Granted	-	-	-	-	-
Forfeited and expired	(1,079,202)	0.02	0.08	-	-
Exercised	(6,866,280)	0.02	0.08	-	-
Outstanding as of December 31, 2015	<u>31,303,540</u>	<u>0.08</u>	<u>0.26</u>	<u>1.34</u>	<u>1,734,975</u>
Granted	32,028,700	0.20	0.10	-	-
Exercised	(2,294,208)	0.02	0.10	-	-
Outstanding as of December 31, 2016	<u>61,038,032</u>	<u>0.15</u>	<u>0.18</u>	<u>5.62</u>	<u>3,844,310</u>
Vested and expect to vest as of December 31, 2016	<u>61,038,032</u>	<u>0.15</u>	<u>0.18</u>	<u>5.62</u>	<u>3,844,310</u>
Exercisable as of December 31, 2016	<u>29,009,332</u>	<u>0.09</u>	<u>0.27</u>	<u>0.67</u>	<u>3,559,610</u>

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**18. SHARE BASED COMPENSATION (CONTINUED)***(b) Options Granted to Employees (Continued)*

Share-based compensation of \$4,190,449, nil and \$1,097,543 were charged to operating expenses of continuing operations for the years ended December 31, 2014, 2015 and 2016 under 2011 Plan, respectively.

The share-based compensation of \$1,571,935, \$7,176,600 and nil were charged to operating expenses of discontinued operations for the years ended December 31, 2014, 2015 and 2016, respectively.

On September 1, 2015, the Board of Directors approved that all 3,312,618 unvested options and 28,639,900 RSUs granted under 2011 Plan became vested and exercisable as of September 1, 2015. This was accounted for as a modification. The share-based compensation of \$7,503,976 from this modification was one-time charge to operating expenses of discontinued operations for the year ended December 31, 2015.

As all batches of options and RSUs outstanding as of September 1, 2015 were immediately vested on that date, the actual forfeiture rates were trued up, which resulted a reversal of \$327,376 share-based compensation in discontinued operations for the year ended December 31, 2015.

The aggregated intrinsic value of stock options outstanding and exercisable as of December 31, 2016 was calculated based on the closing price of the Company's ordinary shares on December 31, 2016 of \$3.76 per ADS (equivalent to \$0.21 per ordinary share). The total intrinsic value of stock options exercised during the year ended December 31, 2014, 2015 and 2016 was nil, \$1,547,655 and \$618,971, respectively.

During the year ended December 31, 2016, share-based compensation of \$1,097,543 was charged to operating expenses of continued operations and as of December 31, 2016, there was \$3,521,232 of unrecognized share-based compensation cost related to share options and RSUs issued to employees, which are expected to be recognized following the straight-line method over the remaining vesting periods of different tranches, ranging from 0.5 years to 3.5 years.

The fair value of the options granted/modified was estimated on the date of grant/modification with the assistance of an independent third-party appraiser, and was determined using binomial model with the following assumptions:

	<u>March 15, 2013</u>	<u>April 18, 2014</u>	<u>September 1, 2015</u>	<u>July 1, 2016</u>
Expected volatility <sup>(1)</sup>	65%	58%	60.3% - 65.1%	54.8%
Risk-free interest rate <sup>(2)</sup>	0.90%	1.80%	0.47% - 0.88%	1.46%
Expected dividend yield <sup>(3)</sup>	nil	nil	nil	nil
Exercise price <sup>(4)</sup>	\$ 0.2	\$ 0.01	\$ 0.01 - \$0.20	\$ 0.20
Fair value of the underlying ordinary shares <sup>(5)</sup>	\$ 0.0611	\$ 0.059	\$ 0.38	\$ 0.20

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**18. SHARE BASED COMPENSATION (CONTINUED)**

(1) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on average historical volatility of comparable companies for the period before the valuation date with lengths equal to the life of the options.

(2) Risk-free rate

Risk free rate is estimated based on yield to maturity of PRC international government bonds with maturity term close to the life of the options.

(3) Dividend yield

The dividend yield was estimated by the Group based on its expected dividend policy over the life of the options.

(4) Exercise price

The exercise price of the options was determined by the Group's Board of Directors.

(5) Fair value of underlying ordinary shares

The estimated fair value of the ordinary shares underlying the options as of the respective valuation dates was determined based on a contemporaneous valuation. When estimating the fair value of the ordinary shares on the valuation dates, management has considered a number of factors, including the result of a third-party appraisal and equity transactions of the Group, while taking into account standard valuation methods and the achievement of certain events. The fair value of the ordinary shares in connection with the option grants on the valuation dates was determined with the assistance of an independent third-party appraiser.

After the Company listed on NASDAQ in April 2015, the closing market price of the ordinary shares of the Company as of the grant/modification date was used as the fair value of the ordinary shares on that date.

**(c) *Ordinary shares to directors and executives***

On June 29, 2014, Mr. Xu transferred his 30,372,540 ordinary shares of the Company to certain directors and executives for nil consideration. The ordinary shares were transferred for the purpose of attracting and maintaining these directors and executives without service or performance conditions. All the ordinary shares transferred immediately vested and the estimated fair value per ordinary share was \$0.138 on June 29, 2014. The share-based compensation of \$4,190,449 was charged to operating expenses of continuing operations for the year ended December 31, 2014.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**19. NET LOSS PER SHARE**

The calculation of the net loss per share is as follows:

	<b>For the years ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Numerator:</b>			
Net loss attributable to the Company	(43,856,347)	(93,570,188)	(25,293,145)
-Continuing operations	(4,323,249)	(104,646,123)	(25,293,145)
-Discontinued operations	(39,533,098)	11,075,935	-
Accretion for Series A-1 Preferred Shares	(1,445,125)	(442,409)	-
Accretion for Series A-2 Preferred Shares	(36,947,001)	(1,202,748)	-
Accretion for Series B Preferred Shares	(2,422,383)	(720,194)	-
Net loss attributable to ordinary shareholders for computing basic net loss per ordinary shares	(84,670,856)	(95,935,539)	(25,293,145)
-Continuing operations	(8,346,641)	(104,646,123)	(25,293,145)
-Discontinued operations	(76,324,215)	8,710,584	-
Accretion for Series A-1 Preferred Shares	1,445,125	442,409	-
Net income attributable to Series A-1 P referred Shareholders for computing basic net income per Series A-1 Preferred Shares	1,445,125	442,409	-
Accretion for Series A-2 Preferred Shares	36,947,001	1,202,748	-
Net income attributable to Series A-2 P referred Shareholders for computing basic net income per Series A-2 Preferred Shares	36,947,001	1,202,748	-
Accretion for Series B Preferred Shares	2,422,383	720,194	-
Net income attributable to Series B P referred Shareholders for computing basic net income per Series B Preferred Shares	2,422,383	720,194	-
<b>Denominator:</b>			
Weighted average ordinary shares outstanding used in computing basic net loss per ordinary shares	303,886,640	1,001,754,524	1,474,087,060
Weighted average ordinary shares outstanding used in computing diluted net loss per ordinary shares	303,886,640	1,001,754,524	1,474,087,060
Weighted average shares outstanding used in computing basic net income per Series A-1 Preferred Shares	12,202,988	3,242,986	-
Weighted average shares outstanding used in computing basic net income per Series A-2 Preferred Shares	122,029,877	32,429,858	-
Weighted average shares outstanding used in computing basic net income per Series B Preferred Shares	30,507,471	8,107,465	-

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**19. NET LOSS PER SHARE (CONTINUED)**

	<b>For the years ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net loss per ordinary share			
Basic	(0.28)	(0.09)	(0.02)
Diluted	(0.28)	(0.09)	(0.02)
Net loss per ordinary share from continuing operations			
Basic	(0.03)	(0.10)	(0.02)
Diluted	(0.03)	(0.10)	(0.02)
Net (loss)/income per share from discontinued operations			
Basic	(0.25)	0.01	-
Diluted	(0.25)	0.01	-
Net income per Series A-1 P referred Share-Basic	0.12	0.14	-
Net income per Series A-2 P referred Share-Basic	0.30	0.04	-
Net income per Series B P referred Share-Basic	0.08	0.09	-
<b>Weighted average shares used in calculating net loss per ordinary share</b>			
Basic			
Continuing operations	303,886,640	1,001,754,524	1,474,087,060
Discontinued operations	303,886,640	1,001,754,524	-
Diluted			
Continuing operations	303,886,640	1,001,754,524	1,474,087,060
Discontinued operations	303,886,640	1,043,473,265	-
<b>Weighted average shares used in calculating net loss per</b>			
Series A-1 preferred shares	12,202,988	3,242,986	-
Series A-2 preferred shares	122,029,877	32,429,858	-
Series B preferred shares	30,507,471	8,107,465	-

Series A-1, Series A-2 and Series B Preferred Shares were excluded from the computation of diluted net loss per ordinary share for the years ended December 31, 2015 because their effects were anti-dilutive.

For the years ended December 31, 2014, 2015 and 2016, 39,249,022, 18,224,699 and nil ordinary shares resulting from the assumed exercise of share options were excluded as their effect was anti-dilutive for the discontinued operations of the Group, respectively.

For the years ended December 31, 2014, 2015 and 2016, 39,249,022, 59,943,440 and 35,190,467 ordinary shares resulting from the assumed exercise of share options were excluded as their effect was anti-dilutive for the continuing operations of the Group, respectively.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**20. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

Nature of the relationships with related parties:

<b>Name</b>	<b>Relationship with the Company</b>
Chung So Si Fong Dessert Limited	Controlled by Ms. Zhu
Hong Kong Sunward Fishery Restaurant Management Co., Ltd.	Controlled by Ms. Zhu
Nanjing Jiangdong Sunward Fishery Restaurant Co., Ltd.	Controlled by Ms. Zhu
Nanjing Xinzijin Sunward Fishery Restaurant Co., Ltd.	Controlled by Ms. Zhu
Nanjing Yongji Sunward Fishery Restaurant Co., Ltd.	Controlled by Ms. Zhu
Ningbo Yinzhou Sunward Logistics Co., Ltd.	Controlled by Ms. Zhu
Noodles Dao (HK) Co., Ltd.	Controlled by Ms. Zhu
Shanghai Congshao Dessert Co., Ltd.	Controlled by Ms. Zhu
Shanghai Congshao Restaurant Management Co., Ltd.	Controlled by Ms. Zhu
Shanghai Putuo Sunward Restaurant Co., Ltd.	Controlled by Ms. Zhu
Shenzhen Congshao Restaurant Management Co., Ltd.	Controlled by Ms. Zhu
Tianjin Congshao Restaurant Management Co., Ltd.	Controlled by Ms. Zhu
Wuhan Congshao Restaurant Management Co., Ltd.	Controlled by Ms. Zhu
Zhejiang Sunward Group Co., Ltd.	Controlled by Ms. Zhu
Zhejiang Zhonggangjumei Supply Chain Management Co., Ltd.	Controlled by Ms. Zhu
Xiao Nan Guo Holdings Limited	Controlled by Ms. Wang
Xiao Nan Guo (Group) Co., Ltd.	Controlled by Ms. Wang
Shanghai MIN Hongshi Trading Co., Ltd.	Controlled by Ms. Wang
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd.	Controlled by Ms. Wang
WM Ming Hotel	Controlled by Ms. Wang
Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd.	Controlled by Ms. Wang
CCLG	A company under the significant influence of the Company

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**20. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

(a) As of December 31, 2015 and 2016, the following balances were due from/ to the related parties:

<i>Amount due from related parties</i>	As of December 31,	
	2015	2016
	US\$	US\$
Shanghai Congshao Restaurant Management Co., Ltd.	-	71,031(i)
Nanjing Xinzijin Sunward Fishery Restaurant Co., Ltd.	29,469	54,953(i)
Shanghai MIN Hongshi Trading Co., Ltd.	-	23,797(i)
Nanjing Jiangdong Sunward Fishery Restaurant Co., Ltd.	29,831	22,129(i)
Zhejiang Zhonggangjumei Supply Chain Management Co., Ltd.	-	14,437(i)
Nanjing Yongji Sunward Fishery Restaurant Co., Ltd.	13,015	12,018(i)
WM Ming Hotel	1,815	6,613(i)
Shanghai Putuo Sunward Restaurant Co., Ltd.	-	6,235(i)
Ningbo Yinzhou Sunward Logistics Co., Ltd.	149,033	984(i)
CCLG	-	608(i)
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd.	260,623	-(i)
Zhejiang Sunward Group Co., Ltd.	128,845	-(i)
Noodles Dao (HK) Co., Ltd.	74,187	-(i)
Hong Kong Sunward Fishery Restaurant Management Co., Ltd.	70,962	-(i)
Xiao Nan Guo (Group) Co., Ltd.	48,643	-(i)
<b>Total</b>	<b>806,423</b>	<b>212,805</b>

(i) The amounts represent the receivables due from related parties relating to the online direct sales and online platform services.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**20. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)***Amount due to related parties*

	As of December 31,	
	2015	2016
	US\$	US\$
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd.	-	905,260(ii)
Shanghai Congshao Dessert Co., Ltd.	-	361,356(ii)
Tianjin Congshao Restaurant Management Co., Ltd.	-	134,703(ii)
Shenzhen Congshao Restaurant Management Co., Ltd.	-	92,369(ii)
Wuhan Congshao Restaurant Management Co., Ltd.	-	91,845(ii)
Shanghai Congshao Restaurant Management Co., Ltd.	-	69,935(ii)
Chung So Si Fong Dessert Limited	-	23,332(ii)
Nanjing Jiangdong Sunward Fishery Restaurant Co., Ltd.	-	11,271(ii)
Nanjing Yongji Sunward Fishery Restaurant Co., Ltd.	-	8,426(ii)
Nanjing Xinzijin Sunward Fishery Restaurant Co., Ltd.	-	7,811(ii)
WM Ming Hotel	-	3,306(ii)
Hong Kong Sunward Fishery Restaurant Management Co., Ltd.	-	1,414(ii)
Shanghai MIN Hongshi Trading Co., Ltd.	319,767	-(ii)
<b>Total</b>	<b>319,767</b>	<b>1,711,028</b>

(ii) The amounts represent the payables due to related parties relating to online direct sales and online platform services.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**20. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

(b) Details of related party transactions occurred during the years ended December 31, 2015 and 2016 were as follows:

<i>Revenue from</i>	<b>For the years ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Xiao Nan Guo Holdings Limited	-	6,056,439(iii)
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd.	393,147	2,296,225(iii)
Hong Kong Sunward Fishery Restaurant Management Co., Ltd.	-	460,132(iii)
Chung So Si Fong Dessert Limited	-	388,618(iii)
Zhejiang Zhonggangjumei Supply Chain Management Co., Ltd.	-	296,727(iii)
Shanghai Congshao Dessert Co., Ltd.	-	172,521(iii)
Shanghai Congshao Restaurant Management Co., Ltd.	-	160,701(iii)
Nanjing Xinzijin Sunward Fishery Restaurant Co., Ltd.	38,179	82,155(iii)
Ningbo Yinzhou Sunward Logistics Co., Ltd.	58,560	56,722(iii)
WM Ming Hotel	1,573	37,631(iii)
Nanjing Jiangdong Sunward Fishery Restaurant Co., Ltd.	32,726	26,149(iii)
Shanghai Putuo Sunward Restaurant Co., Ltd.	-	21,631(iii)
Nanjing Yongji Sunward Fishery Restaurant Co., Ltd.	17,573	15,692(iii)
Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd.	-	5,392(iii)
Shenzhen Congshao Restaurant Management Co., Ltd.	-	865(iii)
Tianjin Congshao Restaurant Management Co., Ltd.	-	676(iii)
<b>Total</b>	<b>541,758</b>	<b>10,078,276</b>

(iii) The amounts represent the revenue generated from the Group's online direct sales.

<i>Rental expense to:</i>	<b>For the years ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Xiao Nan Guo (Group) Co., Ltd.	335,249	218,212(iv)
<b>Total</b>	<b>335,249</b>	<b>218,212</b>

(iv) The amount represents the rental expense paid for the Group's office.

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

**20. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)***Services fee charged by*

	<b>For the years ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
CCLG	-	169,741(v)
<b>Total</b>	<b>-</b>	<b>169,741</b>

(v) The amount represents the logistics fee charged by the related party for the Group's online direct sales.

*Loan borrowed from*

	<b>For the years ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Xiao Nan Guo (Group) Co., Ltd.	-	6,024,096(vi)
<b>Total</b>	<b>-</b>	<b>6,024,096</b>

(vi) The amount represents the interest-free loan borrowed by the Group from related party, which has been repaid by the Group in 2016.

**21. COMMITMENTS AND CONTINGENCIES***Capital Commitments*

The Group's capital commitments primarily relate to commitments in connection with the investment in CCLG. Total capital commitments contracted but not yet reflected in the financial statements amounted to \$3 million and \$2.2 million as of December 31, 2015 and December 31, 2016, respectively.

*Operating lease commitments*

The Group leases certain office premises under non-cancellable leases. Rental expenses under operating leases for the years ended December 31, 2014, 2015 and 2016 were nil, \$985,214 and \$2,243,907, respectively.

The future aggregate minimum lease payments under non-cancelable operating lease agreements were as follows:

<b>Years ending December 31,:</b>	<b>US\$</b>
2017	1,818,504
2018	1,674,808
2019	1,528,053
2020	1,528,053
2021	1,528,053
Thereafter	13,082,646
<b>Total</b>	<b>21,160,117</b>

**JMU LIMITED**

FORMERLY KNOWN AS WOWO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

---

**22. MAINLAND CHINA CONTRIBUTION PLAN**

Full time PRC employees of the Group are eligible to participate in a government-mandated multi- employer defined contribution plan under which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to these employees. The PRC labor regulations require the Group to accrue for these benefits based on a percentage of each employee's income. Total provisions for employee benefits were nil, \$902,418 and \$1,297,485 for the years ended December 31, 2014, 2015 and 2016, respectively, reported as a component of operating expenses when incurred.

**23. STATUTORY RESERVES AND RESTRICTED NET ASSETS**

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Group's subsidiaries, VIE and VIE's subsidiaries located in the PRC, being foreign invested enterprises established in the PRC, are required to provide for certain statutory reserves. These statutory reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund or discretionary reserve fund, and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires a minimum annual appropriation of 10% of after-tax profit (as determined under accounting principles generally accepted in China at each year-end); the other fund appropriations are at the subsidiaries' or the affiliated PRC entities' discretion. These statutory reserve funds can only be used for specific purposes of enterprise expansion, staff bonus and welfare, and are not distributable as cash dividends except in the event of liquidation of our subsidiaries, our affiliated PRC entities and their respective subsidiaries. The Group's subsidiaries, VIE and VIE's subsidiaries are required to allocate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital. As of December 31, 2015 and 2016, none of the Group's PRC subsidiaries and VIE has a general reserve that reached 50% of their registered capital threshold and therefore they will continue to allocate at least 10% of their after tax profits to the general reserve fund.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the Board of Directors of each of the Group's subsidiaries.

The appropriation to these reserves by the Group's PRC subsidiaries and VIE were all nil for the years ended December 31, 2014, 2015 and 2016.

As a result of these PRC laws and regulations and the requirement that distributions by the PRC entities can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Group's PRC subsidiaries, VIE and VIE's subsidiaries.

The aggregate amounts of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries, VIE and VIE's subsidiaries in the Group not available for distribution were \$21,598,935 and \$28,213,892 as of December 31, 2015 and 2016, respectively, including \$1,599,100 and \$1,614,140 of net restricted assets recorded under VIE and VIE's subsidiaries in the Group.

**WORKING CAPITAL PROVISION AGREEMENT**

**BETWEEN**

**WANG HUIMIN**

**ZHU XIAOXIA**

**AND**

**JMU LIMITED**

**DATED MAY 25, 2017**

This Agreement (this “**Agreement**”) is signed as of May 25, 2017 by and between:

- (1) WANG Huimin and Zhu Xiaoxia, each of whom is a major shareholder of JMU LIMITED (collectively, the “Major Shareholders”); and
- (2) JMU LIMITED, which formerly known as WOWO LIMITED, a limited liability company incorporated under the laws of Cayman Islands, with its registered address at the office of MAPLES CORPORATE SERVICES LIMITED, P.O. BOX 309, UGLAND HOUSE, GRAND CAYMAN, KY1-1104, CAYMAN ISLANDS (hereinafter referred to as the “**Company**”);

The Major Shareholders and JMU LIMITED shall hereinafter be collectively referred to as the “**Parties**” and individually referred to as a “**Party**”.

**WHEREAS:**

- (1) The Major Shareholders agree to provide funds necessary for the Company’s sustainable operation; and
- (2) The Company agrees to accept the funds provided by The Major Shareholders for the purpose of its sustainable operation.

**Therefore, the following terms and conditions are hereby agreed in relation to The Major Shareholders’ provision of funds necessary for the Company’s sustainable operation:**

**1. DEFINITION**

1.1 Unless otherwise interpreted herein, the following terms shall have the following meanings in this Agreement.

1.1.1 This “Agreement” means this Agreement.

1.1.2 “Working days” refer to those days other than the legal holidays and public holidays.

1.1.3 “China” refers to the People’s Republic of China.

## **2. FUNDS PROVISION**

- 2.1 If the capital of each of the Company and its subsidiaries, variable interest entities and the subsidiaries of such variable interest entities is unable to maintain its ongoing operation with own funds, the Major Shareholders will provide to the Company the funds necessary for its sustainable operation.
- 2.2 The funds shall be provided in cash by the Major Shareholders as equity investment in the Company.
- 2.3 The term of Funds provision is from the date of this Agreement to May 31, 2018.

## **3. GUARANTEE**

- 3.1 The Major Shareholders agrees to provide the following assets to guaranty the funds provision obligation under Clause 2 hereof:
  - 3.1.1 The 42.72% equity interests in Xiao Nan Guo Restaurants Holding Limited (a Hong Kong listed company) owned and indirectly held by WANG Huimin; and
  - 3.1.2 The 67.80% equity interests in Zhejiang Sunward Fishery Restaurant Group Co., Ltd. held by Zhu Xiaoxia.
- 3.2 If The Major Shareholders refuse to perform his obligation hereunder, the Company shall have the right to exercise its guarantee rights over the assets provided hereunder.

## **4. CONFIDENTIALITY**

- 4.1 No Party may (i) disclose to any third party the confidential information of the other Party obtained through this Agreement, or (ii) make any profit with the confidential information hereof.
- 4.2 The Parties acknowledge and confirm that (i) any oral or written information exchanged by the Parties in connection with this Agreement is confidential information; (ii) due to this Agreement and the arrangement hereunder, the Parties are likely to obtain or access the confidential information of the other Party. The Parties shall keep all information in confidence and, without written consent from the other Party, shall not disclose to any third party any relevant information, except for the following information: (a) the information known or to be known by the public not by unauthorized disclosure to the public by the Party receiving the information); (b) the information disclosed required by applicable laws or regulations; or (c) any information needed to be disclosed by any Party to its legal or financial advisors in connection with the contemplated transaction hereunder, provided that such legal or financial advisors shall comply with the confidentiality obligations similar with this provision. If any employee or entity engaged by any Party make disclosure of any confidential information, it shall be deemed as a disclosure made by such Party and such Party shall be held liable for breach of its liabilities pursuant to this Agreement. This provision shall survive after this Agreement is terminated for any reason.

**5. BREACH**

- 5.1 The Parties shall strictly abide by the provisions hereof. In the event of any breach by one Party, the non-breaching Party shall issue a notice requesting the breaching Party to rectify the breach within 30 days as of its knowledge of the breach and the breaching Party shall rectify the breach within 30 days upon the receipt of the notice. If the breaching Party refuses to rectify the breach, it shall be deemed as a material breach.
- 5.2 If any of the Major Shareholders breach and refuse to rectify such breach, the Company shall have the right to request such Major Shareholder to pay 30% of the difference between the estimated working capital necessary for the Company's sustainable operation and the working capital paid by the Major Shareholders during the term hereof as the liquidated damage.

**6. GOVERNING LAW AND DISPUTE RESOLUTION**

- 6.1 This Agreement shall be governed by and construed in accordance with the laws of the People's Republic of China.
- 6.2 Any dispute arising from interpretation and performance of this Agreement shall be first resolved by the Parties through friendly negotiation. If any dispute is not resolved within 30 days after one Party issues a written notice to the other Party requesting negotiation, any Party may submit the dispute to Beijing Arbitration Commission for arbitration in accordance with its arbitration rules then effective. The arbitration shall take place in Beijing and the arbitration language shall be Chinese. The arbitration award shall be final and binding upon both Parties.

**7. MISCELLANEOUS.**

- 7.1 If any one or more provisions hereof are held as invalid, illegal or unenforceable in any aspect under any law or regulation, the validity, legality and enforceability of the remaining provisions shall not be affected or impaired in any aspect. The Parties shall, through the negotiation in good faith, replace those invalid, illegal or unenforceable provisions with valid provisions to the greatest extent permitted by laws and expected by the Parties, the economic effect of which shall be substantially identical to that produced by those invalid, illegal or unenforceable provisions.
- 7.2 The Parties may modify and supplement this Agreement in writing. Any modification and/or supplemental agreement made by the Parties to this Agreement shall be an integral part of this Agreement and shall have the same legal effect with this Agreement.
- 7.3 All titles and headings used herein are only for convenience of reference, and shall not be used to construe or interpret this Agreement. Unless otherwise provided, the sections referred to herein shall mean the applicable section of this Agreement.

*[The Below is Intentionally Left Blank.]*

[Signature Page]

**IN WITNESS WHEREOF, the Major Shareholders and the Company have executed this Agreement as of the date first written above.**

Company: JMU LIMITED

By: /s/ZHU Xiaoxia

Name: ZHU Xiaoxia

Title: Co-chairman and CEO

Major Shareholders

/s/WANG Huimin

Name: WANG Huimin

/s/ ZHU Xiaoxia

Name: ZHU Xiaoxia

**Exhibit 4.18**

**SUPPLEMENTAL AGREEMENT**

This supplemental agreement (the “**Agreement**”) is entered into in Shanghai as of December 28, 2016 by and among the following parties:

- (1) **Shanghai Zhongming Supply Chain Management Co., Ltd.** (the “**WFOE**” or “**Zhongming**”), a wholly foreign-owned enterprise registered in Shanghai, the People’s Republic of China (“**China**” or “**PRC**”), under laws of China;
- (2) **Shanghai Zhongmin Supply Chain Management Co., Ltd.** (“**Zhongmin**”), a domestic company registered in Shanghai, China under the laws of China; and
- (3) **Shanghai Zhongmin Investment and Development Group Co., Ltd.** (which was formally known as “Shanghai Zhongmin Investment and Development Co., Ltd.”, the “**Shareholder**”), an entity registered in Shanghai, China under the laws of China.

(Each of **WFOE**, **Zhongmin** and the **Shareholder**, a “**Party**”, and collectively the “**Parties**”)

- (A) **WHEREAS**, the **Shareholder** holds 100% equity interests in **Zhongmin**;
- (B) **WHEREAS**, the **WFOE** and **Zhongmin** entered into a Master Exclusive Service Agreement dated May 13, 2015 (the “**Master Exclusive Service Agreement**”)
- (C) **WHEREAS**, the **WFOE**, **Zhongmin** and the **Shareholder** entered into a Business Cooperation Agreement dated May 13, 2015 (the “**Business Cooperation Agreement**”);
- (D) **WHEREAS**, the **WFOE**, **Zhongmin** and the **Shareholder** entered into an Exclusive Option Agreement dated May 13, 2015

(the “**Exclusive Option Agreement**”);

- (E) **WHEREAS**, the **WFOE, Zhongmin** and the **Shareholder** entered into an Equity Interests Pledge Agreement dated May 13, 2015 (the “**Equity Interests Pledge Agreement**”);
- (F) **WHEREAS**, the **WFOE, Zhongmin** and the **Shareholder** entered into a Proxy Agreement and Power of Attorney dated May 13, 2015 (the “**Proxy Agreement and Power of Attorney** ”, together with **Master Exclusive Service Agreement, Business Cooperation Agreement, Exclusive Option Agreement** and **Equity Interests Pledge Agreement**, the “**Principal Agreements**”)
- (G) **WHEREAS**, the **Shareholder** changed its name from Shanghai Zhongmin Investment and Development Co., Ltd. to Shanghai Zhongmin Investment and Development Group Co., Ltd on May 14, 2015;
- (H) **NOW, THEREFORE**, the **Parties** hereby agree as follows:

1. The **Parties** hereto acknowledge and confirm that the name of “Shanghai Zhongmin Investment and Development Co., Ltd.” for all section under the **Principal Agreements** shall be changed as “Shanghai Zhongmin Investment and Development Group Co., Ltd.” and take effect as the date appearing at the head hereof.

2. Article 4.1.7 of the Exclusive Option Agreement are amended as follows,

Without the prior written consent of the WFOE, they shall not cause Zhongmin to provide any person or company with any loan or credit, or provide any person or company with any guarantee or security in any form, other than in the course of ordinary business.

3. Article 4.2.7 of the Exclusive Option Agreement is amended as follows,

The shareholder shall promptly return or donate any funds received, including but not limited to loans, profit, interest, dividend or proceeds of liquidation received from Zhongmin to the WFOE or any other entity designated by the WFOE to the extent permitted under applicable PRC laws.

4. Article 5.1 of the Master Exclusive Service Agreement is amended as follows,

To ensure that cash flow requirements with regard to the business operations of the Service Receiving Party are met and/or to set off any loss accrued during such operations, the WFOE agrees that it shall, to the extent permissible under PRC law, through itself or its designated person, provide financial support to the Service Receiving Party. The WFOE's financing support to the Service Receiving Party may take the form of bank entrusted loans or other forms permitted under PRC law.

5. Delete article 15.2 of the Master Exclusive Service Agreement.

In the event that The Stock Exchange of Hong Kong Limited or other supervision and administration institution provides any comments to this Agreement, or upon any changes to the Rules Governing the Listing of Securities on The Stock exchange of Hong Kong Limited or relevant requirements where they relate to this Agreement, the Parties shall amend this Agreement accordingly.

6. Delete article 5.3 of the Business Cooperation Agreement.

In the event that The Slack Exchange of Hong Kong Limited or other supervision and administration institution provides any comments to this Agreement, or upon any changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or relevant requirements where they relate to this Agreement, the Parties shall amend this Agreement accordingly.

7. Delete article 9.3 of the Exclusive Option Agreement.

In the event that The Slack Exchange of Hong Kong Limited or other supervision and administration institution provides any comments to this Agreement, or upon any changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or relevant requirements where they relate to this Agreement, the Parties shall amend this Agreement accordingly.

8. Delete article 11.3 of the Equity Interests Pledge Agreement.

In the event that The Slack Exchange of Hong Kong Limited or other supervision and administration institution provides any comments to this Agreement, or upon any changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or relevant requirements where they relate to this Agreement, the Parties shall amend this Agreement accordingly.

9. Article 2 of the Proxy Agreement and Power of Attorney is amended as follows,

The Attorney-in-Fact has the right to authorized, at its sole discretion, its affiliated companies, including but not limited its ultimate holding company, to exercise any or all of its rights of the Attorney-in-Fact under this Agreement.

The Attorney-in-Fact has the right to appoint, at its sole discretion, a candidate or candidates to perform any or all of its rights of the Attorney-in-Fact under this Agreement, which could be the Attorney-in-Fact or the directors of the affiliated companies of the Attorney-in-Fact, and to replace such candidate or candidates.

10. Article 12 of the Proxy Agreement and Power of Attorney is amended as follows,

Any modification of this Agreement shall be made in a written form and shall only become effective upon execution by all Parties of this Agreement. Modifications and supplements to this Agreement duly executed by the Parties shall be parts of this Agreement and shall have the same legal effect as this Agreement.

Besides that, the **Parties** agree that all sections of the **Principal Agreements** remain unchanged.

*[Signature Page Follow]*

IN WITNESS WHEREOF, the **Parties** have duly executed this **Agreement** on the date appearing at the head hereof.

**Shanghai Zhongming Supply Chain Management Co., Ltd.**

Authorized Representative:

Signature: /s/Xiaoxia Zhu

Seal: (Seal)

**Shanghai Zhongmin Supply Chain Management Co., Ltd.**

Authorized Representative:

Signature: /s/Liyuan Cao

Seal: (Seal)

**Shanghai Zhongmin Investment and Development Group Co., Ltd.**

Authorized Representative:

Signature: /s/Xiaoxia Zhu

Seal: (Seal)

May 18, 2017

To: Shanghai Zhongmin Supply Chain Management Co., Ltd. (the "**VIE Entity**")

To Whom It May Concern:

To ensure the cash flow requirements of the VIE entity's operations are met and/or to set off any loss accrued during such operations, the undersigned, JMU Limited. (the "**Company**"), is obligated and hereby undertakes to provide unlimited financial support to the VIE Entity, to the extent permissible under the applicable PRC laws and regulations, whether or not any such operational loss is actually incurred. The form of financial will not request repayment of the loans or borrowings if the VIE Entity or its shareholders do not have sufficient funds or are unable to repay.

The undersigned agrees and acknowledges such undertaking shall be irrevocable and continuously valid from the first time of the VIE agreements were signed (May 13, 2015) until the earlier of (1) the date on which all of the equity interests of the VIE

Entity have been acquired directly or indirectly by the Company or its designated representative (individual or legal person); or (2) the date of unilateral termination by the Company, at its sole and absolute discretion, by giving thirty (30) days prior written notice to the VIE Entity of its intention to terminate this letter.

Please confirm receipt of this letter by returning a signed copy of this letter to the undersigned.

JMU Limited

/s/ Xiaoxie Zhu

Name: Xiaoxia Zhu

Title: Authorized Signatory

---

**Exhibit 8.1**

List of Principal Subsidiaries and Consolidated Variable Interest Entities of JMU Limited

<b><u>Subsidiaries</u></b>	<b><u>Place of Incorporation</u></b>
Join Me Group (HK) Investment Company Limited	Hong Kong
Join Me Group Supply Chain Management Company Limited	Hong Kong
New Admiral Limited	Cayman Islands
Shanghai Zhongming Supply Chain Management Co. Ltd.	PRC
<b>Consolidated Variable Interest Entities</b>	
Shanghai Zhongmin Supply Chain Management Co. Ltd.	PRC

---

**Exhibit 12.1**

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

I, Xiaoxia Zhu, certify that:

1. I have reviewed this annual report on Form 20-F of JMU Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 26, 2017

By: /s/Xiaoxia Zhu  
Name: Xiaoxia Zhu  
Title: Chief Executive Officer

---

**Exhibit 12.2**

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

I, Frank Zhigang Zhao, certify that:

- 1. I have reviewed this annual report on Form 20-F of JMU Limited;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not

misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 26, 2017

By: /s/Frank Zhigang Zhao  
Name: Frank Zhigang Zhao  
Title: Chief Financial Officer

---

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of JMU Limited (the "Company") on Form 20-F for the year ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Xiaoxia Zhu, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 26, 2017

By: /s/Xiaoxia Zhu  
Name: Xiaoxia Zhu  
Title: Chief Executive Officer

---

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of JMU Limited (the "Company") on Form 20-F for the year ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Frank Zhigang Zhao, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 26, 2017

By: /s/Frank Zhigang Zhao  
Name: Frank Zhigang Zhao  
Title: Chief Financial Officer

---

**Exhibit 15.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-206466) pertaining to the Amended and Restated 2011 Share Incentive Plan of our report dated May 26, 2017, with respect to the consolidated financial statements of JMU Limited, included in this Annual Report (Form 20-F) for the year ended December 31, 2016.

/s/ Ernst & Young Hua Ming LLP  
Ernst & Young Hua Ming LLP  
Shanghai, the People's Republic of China  
May 26, 2017

---

**Exhibit 15.2**

**CONSENT OF BEIJING DENTONS LAW OFFICES, LLP, PRC COUNSEL**

May 26, 2017

JMU Limited

10th Floor, No. 777 Jiamusi Road  
Yangpu District, Shanghai  
People's Republic of China  
Ladies and Gentlemen,

We hereby consent to references to our name by JMU Limited under the heading "If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in internet business, 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 "Contractual Arrangements with Our Consolidated Affiliated Entity" on Form 20-F for the year ended December 31, 2016 (the "Annual Report"), and further consent to the incorporation by reference into the Registration Statement on Form S-8 (No.333-206466). We also consent to the filing of this consent letter with the U.S. Securities and Exchange Commission as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

By: /s/Beijing Dentons Law Offices, LLP  
Beijing Dentons Law Offices, LLP

---

**Exhibit 15.3**

Our ref  
Direct tel +852 36907431  
E-mail juno.huang@maplesandcalder.com

10th Floor, No. 777 Jiamusi Road  
Yangpu District, Shanghai  
People's Republic of China

26 May, 2017

Dear Sir

**JMU Limited (the "Company")**

We have acted as legal advisers as to the laws of the Cayman Islands to the Company in connection with the filing by the Company with the United States Securities and Exchange Commission (the "SEC") of an annual report on Form 20-F for the year ended 31 December 2016 ("**Form 20-F**").

We hereby consent to the reference of our name under the heading "Item 3. Key Information—D. Risk Factors—Risks Relating to Our ADSs—We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you could have less protection of your shareholder rights than you would under U.S. law." in the Form 20-F, and further consent to the incorporation by reference of the summary of our opinion under this heading into the Company's registration statement under Form S-8 (File No. 333-206466) that was filed on 19 August 2016.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP  
Maples and Calder (Hong Kong) LLP

---

**Exhibit 15.4**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-206466) of our report

dated April 27, 2016, relating to the consolidated financial statements of JMU Limited, its subsidiaries, its variable interest entity (the "VIE") and its VIE's subsidiaries, appearing in this Annual Report on Form 20-F of JMU Limited for the year ended December 31, 2016.

/s/Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People's Republic of China  
May 26, 2017

---

**Exhibit 15.5**

May 26, 2017

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC20549

Dear Commissioners:

We have read Item 16F of Form 20-F of JMU Limited (the "Company") for the year ended December 31, 2016, which the Company expects to file on or about May 26, 2017, and have the following comments:

1. We agree with the statements made in the first and second sentences of paragraph 1, paragraphs 2 and 3, and the first sentence of paragraph 4 of Item 16F for which we have a basis on which to comment on, and we agree with, the disclosures.
2. We have no basis on which to agree or disagree with the statements made in the third and fourth sentences of paragraph 1, the second sentence in paragraph 4 and paragraphs 5 through 11 of Item 16F.

Very truly yours,

/s/Deloitte Touche Tohmatsu Certified Public Accountants LLP

Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China

---