

April 16, 2019

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April 16, 2019
Uxin Ltd. (UXIN) China

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Uxin Ltd. (UXIN)

Price	\$ 3.05
52-week high	\$10.49
52-week low	\$ 2.18
Market cap (mln)	\$891.79
ADRs	25 mln
Average Volume (mln)	5.90



Source: Bloomberg April 16, 2019

Uxin Ltd. (UXIN)

Clunker

Beware of Chinese Promoters Selling Used Cars

- ▶ **Overstated transaction volume:** We believe that Uxin exaggerates the volume of auto sales processed by the company by as much as 40%.
- ▶ **Undisclosed debt:** Financial statements for Uxin's operating companies in China show a staggering level of debt that puts the company at risk of collapse. The debt has not been reported to U.S. investors.
- ▶ **Fake values:** The price of cars sold is artificially elevated to raise loan values, which are sometimes twice the actual value of the car. This means that the loan collateral is far below what's needed to cover defaults. We believe the elevated values have been used to obtain more debt than the company really needs, perhaps to enable insiders to take out cash. Management has pulled far more money out of the company than is justified by cash flows.
- ▶ **Circular transactions:** We have learned that Uxin's secret sauce for "revenue growth" is a special POS machine that embeds Uxin's proprietary software and routes unrelated transactions through Uxin accounts. Evidence suggests that Uxin is counting these third-party transactions as its own revenue. Uxin has provided transaction subsidies to induce dealers to use the POS.

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- ▶ **Overstated inventory:** We had software built that shows the number of unique automobiles management says are available for sale is overstated by half. Even the more modest number of listings over-represents Uxin's inventory. We conducted more than 40 interviews with dealers, former Uxin executives, and salespeople from competing companies, and all concurred that Uxin is basically a Craigslist of autos, listing cars that are being offered on multiple websites. For free.
- ▶ **Siphoning cash:** Uxin's founder has taken about \$280 mln out of the company by sleight of hand. Founder Dai Kun¹ could not even wait for the IPO before enriching himself: he took the first chunk of \$100 mln before the company listed then got about \$180 mln in December 2018, while the shares were still in lock-up. Two other insiders made about \$270 mln in the same sale. This money did not come out of Uxin cash flows—far from it.
- ▶ **Well-known in China as a cheat:** Uxin's truly awful public reputation is well hidden from Western investors, but a simple search in Chinese turns up hundreds of news articles, blog posts, and lawsuits alleging that Uxin is a cheat. The company is absolutely plagued with consumer lawsuits and has been repeatedly reported to consumer watchdogs in the Chinese government for improper fees added to the loans it sells.
- ▶ **Sell:** Uxin is so dishonest that we would not know how to attach a valuation. We urge Uxin shareholders to race to the exits.

¹ J Capital uses the Chinese format for names, putting the surname first.

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Executive Summary

In the dark, fraud-infected world of used car sales in China, Uxin has managed to sell its bill of goods not just to Chinese consumers but to U.S. public markets. Detailed exposés have shown that all China’s online used-car dealers exaggerate. However, Uxin came up with the most sophisticated strategy to lie about its sales: it got auto dealers all over China to flush unrelated sales through Uxin’s accounts using a special Point of Sales (POS) machine.

The fake revenue tool paid off nicely. Hemorrhaging cash, Uxin desperately needed an IPO in 2018 simply to stay alive. Uxin achieved that debut on June 27 last year. The company garnered a valuation of about \$2.7 bln despite just \$290 mln in 2017 revenue and heavy losses. The only way to accomplish that was by reporting massive growth—and report growth it did. Uxin claimed on IPO that, from 2016 to 2017, its revenue increased by 137% and transaction volume rose by 68%.

Before the shares even started trading, company founder Chris Dai Kun managed to capture \$100 mln for himself. And before the IPO lock-up expired, he pulled off a sale that earned him another roughly \$180 mln without needing to disclose a management sale to shareholders. It was a complex deal, done by apparently engineering a margin call on shares collateralized to a company that is now deeply embroiled in a corruption scandal. The strategy used for this share sale was, we believe, highly suggestive of collusion with this Chinese financial institution, which is now under investigation for share manipulation and two of whose top executives have been arrested.

Uxin is an online marketplace for used cars, selling both to dealers and to individuals. It was founded in 2011 as an auction site for dealers, but the company found that it could add little value to these transactions and moved to the consumer market in early 2018. The company also pushed its lending business for second-hand cars, going from 38% of revenues from “loan facilitation” in 2016 to 55% in the most recent quarter.

Second-hand auto sales and financing are crowded fields in China, with at least nine well-financed competitors, including Guazi, Renren, the listing site 58.com, and Yixin, which provides financing for second-hand cars. The company reported selling a total of 814,498 cars in 2018, which would represent as much as 59% of China’s online second-hand auto sales or 6% of China’s whole second-hand auto market—if the numbers were true.

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Major competitors in online sales of second-hand autos. From top left, Renren Che, Uxin, Guazi, Chezhibao, Taoche, 58.com, Tiantian Car Auction, and Second-hand Exchange. Image from Sohu, February 21, 2019

Even in its reported financial statements—which omit huge liabilities--the company is in a perilous financial state. To try to persuade investors of its financial stability, in Q1 2019, Uxin basically relied on financial manipulation. It decreased current assets and increased current liabilities. It reduced its advances to sellers by 24% and almost doubled the proportion of advances it takes from buyers, to 33% of revenue from 17% of revenue. Uxin also sold a bit of equity. As it is, with ¥801 mln in the bank and burning ¥250-300 mln each quarter under the best of circumstances, the company will likely have to raise cash just to keep the lights on.

Those already poor numbers were in the company’s report to investors. It also told investors that, at the end of 2017, before the IPO, the company had \$75.7 mln in net debt (cash and near cash minus short- and long-term borrowings). The Chinese financials tell a different story. On a non-consolidated basis, at end 2017, those statements showed \$1.76 bln in net debt.² We believe this is undisclosed and not eliminated in consolidation. We obtained financial statements reported to Chinese tax authorities by 16 of Uxin’s Chinese operating companies, including all those named as material in Uxin disclosures. Companies with the largest assets and liabilities are wholly owned by Uxin, not Variable Interest Entities (VIEs). A single subsidiary, Kaifeng Financing Lease (Hangzhou) Co. Ltd., represents fully

² We are using the 2017 balance sheet as an apples-to-apples comparison because Chinese financials are reported annually so we do not have quarterly statements to compare with Uxin’s. Although we have not consolidated financials of Uxin’s Chinese operating companies, only one company, Kaifeng Financing Lease, has borrowings in 2017, and that company’s payables and receivables do not suggest heavy inter-company transactions.

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three-quarters of total liabilities across the 16 companies. Those liabilities cannot be consolidated away. Kaifeng's Chinese financial statements show that Kaifeng had long-term borrowings of \$2.05 bln in 2017 and \$3.59 bln in 2018.

The debt number likely stems from cars that Kaifeng is notionally renting to buyers, who receive ownership at the end of the lease period for ¥1, according to a contract we viewed. Kaifeng appears to carry cars on its balance sheet purchased with cash from two shadow banks—something company management explicitly claims does not happen. Management says 48% of cars financed by Uxin in 2018 were financed on a financial leasing basis.

Juicing revenues with a “billion-dollar” POS

A series of negative articles on Uxin published in early 2017 alleged that half of Uxin sales volumes were faked using “brushing” strategies.³ In March 2017, Tianxia News was one of many news outlets in China that published an article entitled “Brushing Is Almost Half: Financial Data for Uxin Second-Hand Auto Create Doubts.”⁴

But Uxin goes far beyond brushing: it came up with a way to generate circular “revenues” using a specially designed POS. The machine directs all receipts first to Uxin, regardless of whether the transaction was a Uxin sale or not. Uxin then pays the auto dealers and agents. The POS is simply a payment mechanism at dealers, like any machine to run credit or debit cards. Uxin may be responsible for 5% or 10% of sales at a participating dealer, but Uxin tries to capture the other 90-95% of sales by taking payment through the Uxin POS. We confirmed in eight interviews, including with a former Uxin financial manager, that Uxin counts as its own revenue dealer sales in which Uxin had no hand. For example, if a given dealer sells five cars a month via Uxin but sells 100 cars in total off the lot each month, the other 95 sales could be counted as Uxin's revenue as long as they are processed using the Uxin POS.

Financial statements submitted to China's tax authorities confirm our research on the circular money flows through the POS: statements for 2018 show that the company revised 2017 revenue numbers for two companies, Youzhen (Beijing) Business Consulting Co., Ltd. and Youfang (Beijing) Information Technology Co. Ltd., from ¥265 mln (\$39.5 mln) originally

³ “With the Brushing Proportion About Half, Uxin Second-Hand Car's Financial Numbers Attract Suspicion,” *Southern Finance Net*, March 22, 2017 <http://news.nfcjw.com/2017/0322/534.html>.

⁴ See *Tianxia News*, March 22, 2017: <http://www.newstx.com.cn/2017/0322/1539.html>

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Financial statements submitted to China's tax authorities confirm our research on the circular money flows through the POS.

reported for 2017 to 0. The statements, obtained from financial authorities by Chinese attorneys, suggest that Uxin, once clear of the IPO, reported its actual rather than its pretend revenues.

Uxin incentivized dealers to adopt the POS by subsidizing the banking charges, which average 50-60 bps. This makes sense, given how much money Dai made from transacting in his stock—he needed investors to believe in growth, no matter what the cost.

Our interviewees could not tell us how many Uxin POS machines are in the market, but a former finance manager for the company said “at least 5,000.”



A photo of the Uxin POS machine at a second-hand dealer in Shanghai. Source: China investigator February 2019

Initially, there was a trust problem: “When consumers used the POS, money went into Uxin’s account,” said a former Uxin manager in an interview. “What if, by any chance, the company ran away with the money? Not only did the auto dealers have this concern, but even Uxin employees worried: we didn’t want to be working for nothing,” the manager said. [quotes are all translated from Chinese]

Uxin came up with an innovative solution: automatic redirection of funds to the appropriate account. Auto dealers and ex-Uxin financial managers told us that Uxin designed software to first wash funds through its own account then automatically route transactions to the designated recipient in a two-stage process.

A former Uxin financial executive told us that Uxin wanted to get hold of transaction revenue “from all the car dealers in all of China and make it

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Uxin's." This was to fool to investors into believing that Uxin's transaction and sales volume were huge.

We interviewed a former Uxin executive who spent three years working in financial management for the company. That executive said: "When the consumer paid via the Uxin POS, the money would go into the Uxin account."



The Uxin two-step POS scam has been documented in the Chinese press. "Uxin put its own POS machine in auto shops, and that allowed any transaction to go through Uxin's books," according to an article that appeared September 22, 2018 on a site called Twoeggz.⁵ Another article published in March 2017 reported: "Uxin fakes sales mainly in two ways. The first is that a dealer gives Uxin sales receipts and gets reimbursed, and the second is that Uxin places its own POS machines with dealers and any transaction can then go through Uxin."⁶ Eight of our interviews with auto dealers and with current and former Uxin employees confirmed this. Said one manager for Uxin: "This policy was proposed by one of our vice presidents before we went public, and we had no choice but to promote it."

A former executive of Uxin's financial division justified the POS policy by saying that the machine was designed to collect data on all the transactions in the second-hand auto market so that Uxin would have visibility into the market. But he said that "The transactions that really belong to

⁵ "Uxin Second-Hand Autos, Represented by [Actor] Wang Baoqiang, Creates Fake Data: Trapped in a Capital Game," September 22, 2018: <http://www.twoeggz.com/news/11122427.html>

⁶ "With the Brushing Proportion About Half, Uxin Second-Hand Car's Financial Numbers Attract Suspicion," March 23, 2017, <http://www.chinachengcun.com/html/2017/0323/1000.html>

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"The transactions that really belong to Uxin maybe represent about one-third of what Uxin reports."

Uxin maybe represent about one-third of what Uxin reports." In other words, Uxin could be overstating transaction revenue by two-thirds.

Uxin employees say that the price war among big payments companies like Alipay and Tenpay has made the Uxin POS less competitive, and Uxin POS penetration is declining.

Mine is mine, yours is mine

Interviewees at used car dealers told us that Uxin collects unrelated contracts and car listings to claim as their own.

On March 4, 2019, we interviewed a salesperson at the Jiading District Second-Hand Auto Market in Shanghai, a market that cooperates with Uxin and uses its POS. At the end of the month, the e-commerce salespeople have to meet their quotas. "So they pay us fees and not only run fake sales through the POS but also collect contracts and legal receipts from us" to run through their accounts via the POS.

A salesperson at another second-hand auto market in Shanghai, interviewed on March 5, said "We use the POS machine that Uxin provides to run sales through Uxin accounts, and we provide sales contracts and legal receipts to Uxin salespeople" so that they can claim these unrelated sales as their own. A salesperson at a second auto market in Shanghai said, using the POS "we 'brush' official and unofficial receipts to help the salespeople meet their sales targets."

Two dealers told us that Uxin pays for the costs of fake transactions. "Uxin gives dealers subsidies of different levels," said a large second-hand auto dealer in Shanghai. "The Uxin Finance Department typically books these as advertising costs or labor costs."

We interviewed staff at several second-hand auto markets in Beijing, Shanghai, Shijiazhuang, and Chengdu. "Every loan salesman at Uxin has to issue at least five loans per month," said one interviewee. "If they do not make this number, they pay the car dealers for some sales receipts to add to their sales results." This manager said that auto dealers work with Uxin to create fake sales and are reimbursed for associated costs, like sales tax.

Transaction volume: overstatement of about 2x

In every part of its business, Uxin is lying about its scale. On the website, Uxin massively over-represents its coverage and its inventory of cars. The company claims to cover 900 cities and to have a goal of reaching 1,500 by year end. On the Q4 call, CEO Chris Dai Kun said: "First of all, we're ex-

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In every part of
its business, Uxin
is lying about its
scale.

panding our - the sales network. Today, we cover 900, the region. And our aim at the end of the year, we want to coverage 1,500, the country level cities.” (Bloomberg transcript, Q4 2018 results)

We had a piece of software built that searches the Uxin website and creates an Excel entry for each car, which has a unique URL. Our team leaders are three of China’s top data scientists, who come out of China’s biggest internet companies and are well versed in techniques used by Alibaba, JD, Vipshop, and others to make their numbers look impressive to investors. The team that built the tool numbers around 30 people. We accessed 37.5 mln pieces of data in the scraping process and downloaded the data to a massive spreadsheet that lists the cities covered by Uxin and lists the cars advertised as available in each city. We have high confidence in the soundness of the software. It showed us that the site actually covers 399 cities, not the 900 the company claims.

The software also demonstrated that the site overstates the inventory of cars. IR claims there are 200,000 unique listings. We verified 103,600 on March 18. The website itself offers a number of “available cars” in each locality, which add up to 35.09 mln.

Here is a small sample from our data showing car listings across the top and cities along the left side.

The “1” indicates that a car appears in the listed city. If you look down the columns, you will see how each car listing is repeated in almost every city.

So Uxin is posting the same car hundreds of times on the different city sites, even though it may be logistically impractical to actually purchase the cars, since many are thousands of miles away.

Ask yourself this question: If I have 50 cars for sale in New York, but I have a website in every state, do I have 50 cars available or, as Uxin maintains, 2,500?

	Volkswagen Santana Zhijun 2008	Baojun 730 2017	Beiqi Magic 2015	MINI CLUBMAN 2011	Volkswagen Jetta 2013	Peugeot 307Cross 2013	Toyota Camry 2013	Volkswagen Sagitarrius 2012	Buick LaCrosse 2016
Alexazuo Banner	1	1	1	1	1	1	1	1	1
Ankang	0	1	0	0	0	0	0	0	1
Anning	1	1	1	1	1	1	1	1	1
Anqing	1	1	1	1	1	1	1	1	1

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	Volkswagen Santana Zhijun 2008	Baojun 730 2017	Beiqi Magic 2015	MINI CLUBMAN 2011	Volkswagen Jetta 2013	Peugeot 307Cross 2013	Toyota Camry 2013	Volkswagen Sagittarius 2012	Buick LaCrosse 2016
Anshan	1	1	1	1	1	1	1	1	1
Anxi	1	1	1	1	1	1	1	1	1
Anyang	1	1	1	1	1	1	1	1	1
Baicheng	1	1	1	1	1	1	1	1	1
Baise	1	1	1	1	1	1	1	1	1
Baishan	0	1	0	0	0	0	0	0	1
Baodi	0	1	0	0	0	0	0	0	1
Baoding	1	1	1	1	1	1	1	1	1
Baoji	1	1	1	1	1	1	1	1	1
Baotou	1	1	1	1	1	1	1	1	1
Bayannaer	1	1	1	1	1	1	1	1	1
Bayingele	1	1	1	1	1	1	1	1	1
Beihai	1	1	1	1	1	1	1	1	1
Beijing	1	1	1	1	1	1	1	1	1
Bengbu	1	1	1	1	1	1	1	1	1
Binzhou	1	1	1	1	1	1	1	1	1
Boluo	0	1	0	0	0	0	0	0	1
Botou	0	1	0	0	0	0	0	0	1
Boxing	1	1	1	1	1	1	1	1	1
Bozhou	1	1	1	1	1	1	1	1	1
Cangnan	1	1	1	1	1	1	1	1	1

Source: J Capital software

Actually available? Maybe 50,000 cars

The company is pulling every lever it can to print numbers that look less bad. While most online players charge for listings, Uxin gives free listings to dealers to give the illusion of scale. That means that many of the cars Uxin lists as “available” are actually being sold by other companies or may not be available at all. Dealers estimate that as many as 40% of the listings are of cars not actually sold by Uxin. Some dealers list the same cars on 10 different sites.

- **Redundant listings:** The site displays cars for sale that are also offered on other websites. Dealers we spoke with said they posted inventory with Guazi, 58.com, Che168, Dafengche, and their own

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websites. That means that a portion of the displayed inventory is sold by other sites, not by Uxin.

Here is one of the several cross listings we found, of a 2017 Passat registered in August 2018, with 10,000 km on its odometer, listed on Uxin and Che168.

- ▶ **Cars that have already been sold:** The majority of cars are sourced from dealers, and the listings often persist on the site after the dealer has sold the car offline, according to the manager of one of China's largest second-hand dealers, in Shanghai. "The ecommerce companies, in order to make their numbers look good, knowingly are not going to take down their car listings," said this manager in an interview.



The employee pictured above on the right told us that this car is being offered on both Guazi and Uxin. Photo by J Capital investigator March 2019.

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The Uxin listing



The Che168 listing

- ▶ **Cars dealers have not authorized Uxin to sell:** Uxin staff roam second-hand car markets and photograph cars on the lot without authorization, say dealers. “There are cars that we dealers are not selling on the ecommerce platforms that the appraisers select and put on line. We can’t vouch for the timeliness or accuracy of that information,” the manager said. Another manager said: “In the past, these ecommerce salespeople and inspectors all day were wandering around our lot and trying their best to photograph and post every single car we have.”

In total, we estimate that Uxin only really has 50-60% of the posted inventory. A dealer we spoke with in Shanghai had this to say: “In order to make the numbers look pretty for investors, everyone [all the online used-car dealers] is trying to think of a way to put inventory on their sites, while 30% or even 40% of it is fake.”

Known cheat

Uxin’s strategies to create fake revenue are well known in China, having been the subject of numerous blog posts and articles in the press. An

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analysis that appeared in several outlets⁷ in early 2017 demonstrated that Uxin makes its inventory and turnover appear much bigger than they are by posting multiple photos of the same car, listing cars for sale that have already been sold, and taking photos of all the cars on a used car lot and posting them without authorization. The author of the post found that less than 5% of the cars listed for sale on the Uxin website were posted just once; most listings were repeated at least 20 times on different pages. Uxin also exaggerates the number of results for a search.

“Take Beijing, for example,” says the author. “Uxin displays 62,475 as the number of available vehicles. Take the data from 300 pages. Each page displays 40 cars, which means there should be 12,000 independent cars on those pages. But the spider [the software code this developer wrote] scanned 300 pages and found they listed only 1,921 cars.”

Another set of stories demonstrated that Uxin misrepresented the number of cars it had on offer by posting duplicate listings and listing for-sale cars that had already been sold.⁸

Backing into the sales volume

The lower inventory suggests that actual sales transactions are much lower than Uxin claims. There are a few other ways to estimate what actual sales might be, and most of those ways bring us to conclude that Uxin is overstating sales volume by around 40-50%.

⁷ “A Programmer Well Versed in Uxin’s Fake Auto Inventory,” February 16, 2017, http://www.12gang.com/article_22257.html

⁸ See, for example, “Why Does Uxin Second-Hand Cars Fake Its Data? February 15, 2017, Prospects Industry Consulting, <https://f.qianzhan.com/shangji/detail/170215-eb815034.html>

Table 1. Uxin’s Reported 2C Transaction Revenue per 2C Car Sold

	2016	2017	2018	Q1 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
2C cars transacted	130,076	283,829	494,826	48,818	101,425	95,451	129,465	168,395
2C transaction revenue (,000 RMB)	¥ 81,807	¥ 230,250	¥ 6,453	¥ 42,125	¥ 8,728	¥ 94,100	¥ 13,900	¥ 31,700
2C transaction revenue per car	¥ 629	¥ 811	¥ 1,304	¥ 862.9	¥ 861	¥ 986	¥ 1,074	¥ 1,882

Source: Company reports

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Reported transaction revenue

In our interviews, Uxin salespeople told us that service fee paid to Uxin as a commission for selling a car is generally between ¥2,000-3,000. But as calculated, the fee is much lower, suggesting that Uxin is exaggerating the number of cars it sells—the denominator. Uxin discloses transaction revenue and number of cars sold to consumers. The calculated transaction fee based for 2018 based on these numbers was ¥1,304, suggesting that, even if we were to accept the transaction revenue as real, Uxin must be selling just half of the cars it reports selling.

Number of cars sold per salesperson

As of mid-2018, the company reported 5,963 salespeople. In our interviews, Uxin employees said that the best sales staff could sell up to 10 cars per month, but that most averaged three to four sales per month. Assuming that each salesperson sells five cars per month, the company is able to sell 357,780 cars in a year. But Uxin reported selling 814,498 cars in 2018. Of those, 319,672 were sold to dealers. Presumably, those sales require less sales participation. Nevertheless, the numbers suggest that Uxin may be overstating sales by 40-50%.

Buying own cars

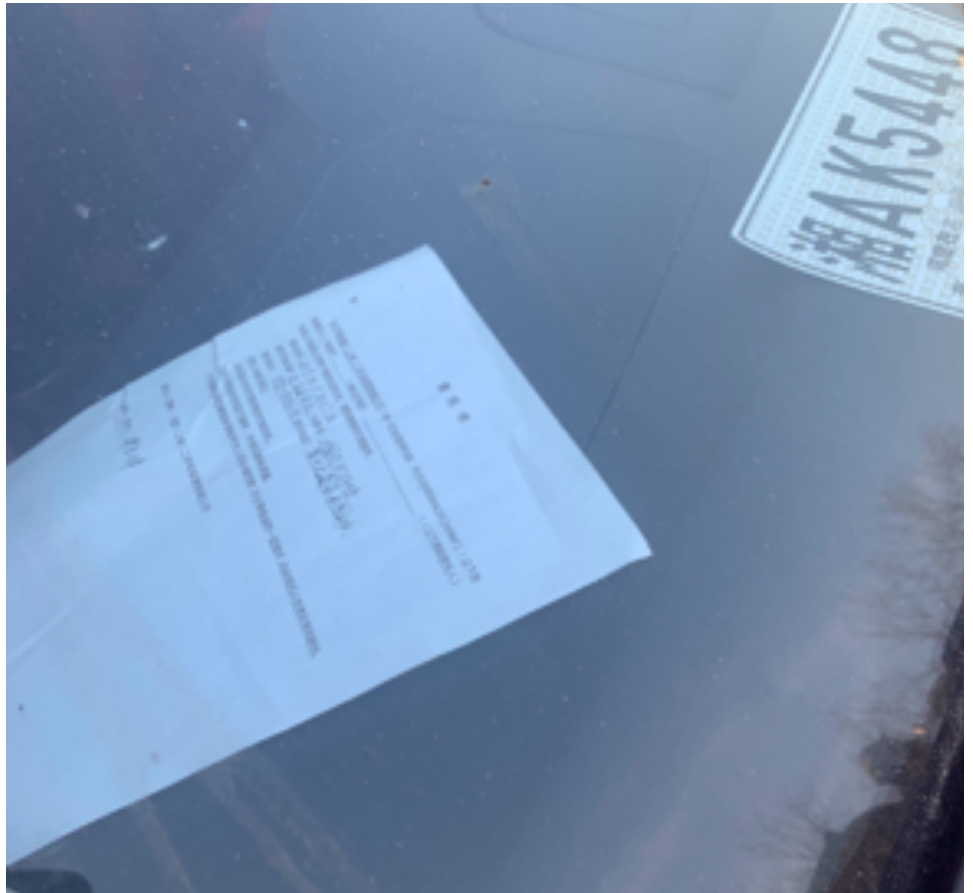
We have confirmed with several former Uxin employees that Uxin itself purchases cars to resell. This is not disclosed in any filings we were able to locate. Employees estimated the owned cars at about 5% of inventory. We believe Uxin buys and resells cars in order to increase turnover.

We visited a Uxin lot in the city of Shijiazhuang and found about 15 cars that we believe had been purchased by Uxin because they had been issued temporary plates. When a customer buys a car, the original plates are can-



Left: Cars in Shijiazhuang likely owned by Uxin

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The car's temporary plates Hunan AK5448, and a document authorizing the transport of the car.⁹ | Photos by J Capital April 2019

⁹ The document on the dashboard reads: Power of attorney: The Youxin (Shanghai) Second-Hand Auto Operation Co., Ltd. (unified social credit number: XXXXXXXXXXXXX) (hereinafter referred to as the principal) has entrusted (XX individual), the "trustee," for our company or our company's customers to provide high-quality, safe, and thoughtful service. Pick up time March 27, 2019. Commissioned on behalf of BYD license plate number: Hunan A K544. Pick up location: Zhongnan used car market Delivery location: Huangxing Avenue Leshi parking lot. Trustee's promise and guarantee: 1 to ensure that it is a legal driver; 2 to ensure that the service is in accordance with service standards, and to ensure the quality of service; 3 to take all responsibility for any illegal driving caused fines, deductions, etc. during the driving period. All losses will be handled and compensated by the trustee. The above is the entire contents of the power of attorney.

celed and new permanent plates in the buyer's name issued. The temporary plates seem to indicate that no buyer has yet been found.

Overstating car values

Uxin appears to be intentionally overstating the value of cars in order to borrow more money. We are not certain who uses the extra loans, but we are sure that Uxin overstates its car values and overstates the amount of loans required. This dramatically raises the financial risk for Uxin, because

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repossessing and selling the cars carried on its balance sheet would not cover the associated loan amounts. Although Uxin claims that it merely guarantees loans for “financing partners,” its financial leasing company, Kaifeng, has ¥24.1 bln in assets and an equal amount of loans, equivalent to 389,000 cars at China’s average used-car price of ¥62,246. IR confirmed to us that Uxin is on the hook for 100% of its loans.

Kaifeng management claims not to hold any cars on its balance sheet. But the evidence from Kaifeng’s balance sheet indicates this is simply not true. We obtained an actual Uxin contract from a salesperson and have seen contracts excerpted in several lawsuits. The contract we obtained assigns the car as collateral to Kaifeng while the buyer retains ownership. In many of the lawsuits available online, cars purchased by consumers are registered to various Uxin subsidiaries, at least for an initial period.

This clause, from the “Counter-Guarantee Letter of Commitment” that forms part of the Uxin contract documents obtained by J Capital, reads “I hereby guarantee: 1) The collateral is owned by me, and providing the collateral to Kaifeng does not violate any third-party rights nor does the

二、本人在此保证：1) 该抵押物属于本人所有，本人将车辆抵押给凯枫的行为不会侵害任何第三方的合法权益，抵押物不存在任何影响其现有价值的权利或质量瑕疵；2) 本人保证在签署本承诺函前未对抵押物设立过抵押或其他担保（经凯枫同意的情形除外）；

collateral have any defects affecting its current value; 2) I guarantee that before signing this guarantee agreement I have not established a collateral or guarantee for the collateral (other than with Kaifeng’s agreement).”

The patented inspection process is a fake

Uxin overvalues the cars through its inspection process. In promotional materials, Uxin says:

“Every vehicle on Uxin’s platform is vetted through a more than 300-point vehicle inspection program, which provides an accurate assessment of the vehicle’s condition. Vehicles that have not been involved in major accidents and meet Uxin’s stringent quality standards receive the Uxin Certified accreditation and the industry-leading warranty.”

The company has patented a device it uses to make video recordings of the cars that it compares with Google Glasses, saying that inspectors wear special Uxin goggles that detect car defects as they record. We have not seen inspectors use these goggles though we have seen them use a handheld device that apparently detects defects in the body of the car from accidents.

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Four inspectors we interviewed said that the company told them that the car values needed to be higher in order to make company numbers look better to investors.

A video of the inspection process is embedded [here](#)¹⁰.

But former company executives say that the inspection actually consists of “a visual inspection” plus an “inspection with a flashlight.” Hundreds of plaintiffs in lawsuits claim that Uxin sold them defective cars, failed to report that the car had been in an accident, changed the odometer, or even neglected to report a completely different engine in the car.

Four inspectors we interviewed said that the company told them that the car values needed to be higher in order to make company numbers look better to investors by raising transaction values and loan values. To achieve that result, Uxin changed its valuation process in late 2017 to prepare for the IPO. Some of the valuations, according to press reports and Uxin staff, are almost double the value that an inspector would assign. A November 12, 2018 story on Sohu recounts the purchasing experience of a woman who bought a 2012 Highlander in Shenyang and found herself being charged for a higher loan amount than she had agreed to.¹¹ She released her chat record in which she tried to contest the charges with an attorney. “I made a down-payment of ¥80,000,” she said. The lawyer reviewing the sale documents responded, “They wrote that the down-payment was ¥40,000.” She added, “I borrowed ¥70,000 and they wrote down ¥80,000.”

The company used to rely mostly on its inspectors to determine the value of a used car, but in late 2017, according to our interviews, “the company, not the assessor, determined the value.”

Several buyers claim that the 300-odd-point inspection of which Uxin is very proud is just for show.¹² A lawsuit¹³ filed against Uxin’s Shanghai subsidiary, Yougu, in Hubei Province in January by a buyer named Hu Huanghuang alleges that Uxin sold him an Audi Q3 for ¥250,000 (\$37,252) with an inspection certificate and a maintenance contract. However, the suit goes on, he discovered on driving the car that the engine had been

¹⁰ <https://jcapitalresearch.box.com/s/11cu7b4mshwerj6x3146bq3d7h449ta0>

¹¹ “The Financial Chaos at Second-Hand Auto Dealers Never Ends: Uxin Is Alleged to Be A Loan Shark,” [We are loosely translating “套路贷” as “loan shark.” Sohu, November 12, 2018, The original headline is 二手车金融乱象不断, 优信被指套路贷] http://www.sohu.com/a/274867767_168553

¹² See comments on Baidu, January 2019: <https://zhidao.baidu.com/question/462005494632679605.html?fr=iks&word=%D3%C5%D0%C5%B6%FE%CA%D6%B3%B5%6%AD%C8%CB&ie=gbk>

¹³ Available here through the database company Qixin: <https://www.qixin.com/lawsuit/4af76a17-417c-4882-a881-c75328e78062?id=5c76c3faebf5512c0c0030c3>

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removed and replaced with cheaper parts. A 2018 lawsuit filed in Tianjin alleges that Uxin fraudulently issued an inspection certificate certifying that a car had not been in any serious accidents and facilitated a sale of the car for ¥86,000 (\$12,806). Uxin was required to repay all charges, which amounted to ¥101,690 (\$15,143), and to pay damages. A buyer filed suit in Liaoning in 2018, because she managed to verify that the car she purchased on Uxin had had its odometer turned back.¹⁴

According to a news report, a man purchased a second-hand car through Uxin for a little more than ¥100,000 (\$14,891). After registering the car, he learned that, despite the multi-point inspection conducted by Uxin, the car had been in a serious accident and could not be driven. He said Uxin refused to reimburse the buyer. He threatened to jump off a building if Uxin did not return his money. Two hours later, after a crowd had gathered, a Uxin representative arrived and told the man, named Ji, that the company would “take responsibility” and presumably repay him for the car.¹⁵

There are at least two reasons for overstating the car values:

- ▶ **Financing down-payments:** Higher valuations allow Uxin to



This man in Ningbo reportedly threatened to jump off a building unless Uxin returned his money. Photo from Sina July 13, 2017

¹⁴ 2018 Dalian Intermediate Court 2 No. 7817

¹⁵ Chinese-language story in Sina, July 2017: http://k.sina.com.cn/article_1951257294_744dd2ce001001x2s.html

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Uxin guarantees 100% of the car loans made by its shadow partners. That means that inflated values for the cars put Uxin at tremendous financial risk. Collateral would have to be auctioned at a loss.

finance down-payments for buyers who do not have a lot of money to put down. Banks lend 70-80% of the value of a car. On a ¥100,000 car (\$14,900), that would mean the buyer would need to come up with ¥20,000 (\$2,980). But if the customer wants to put down just ¥5,000, she must borrow ¥95,000. To do that, the car must be valued at ¥118,750. Banking rules would then allow Uxin to lend the customer 80% of the “value” of the car, or ¥95,000.

- **Improved loan revenues:** There is copious testimony in the Chinese press and in legal cases attesting to deceptive lending practices by Uxin that boost loan values. An article published on JRJ (“Finance Street”) on December 3, 2018 provides a description: A man in Ningbo purchased a used Cadillac and was encouraged to take a Uxin loan. Uxin added so many fees that the loan value was ¥248,500 for a ¥168,000 car.¹⁶

Similarly, “on November 9, 2018, I bought a car from Uxin Second Hand Auto,” says a [blog post](#) carried on a site called “Fast Lane Complaints.” The car cost ¥60,000 (\$8,940), and Uxin assessed it at ¥160,000 (\$23,841) and



Chat record between Uxin buyer and attorney, published on Sohu November 12, 2018: http://www.sohu.com/a/274867767_168553

¹⁶ “The Cheapest Second Hand Cars in the Country Cost More than New? Uxin’s ‘Bundled Loans,” JRJ.com, December 3, 2018: <http://money.jrj.com.cn/2018/12/03083025438871.shtml>

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offered the buyer a loan of ¥140,000 (\$20,861).

We sent investigators in posing as buyers to verify that Uxin requires customers to make down-payments before reading a contract, something online posters have complained about. That practice facilitates over-valuing the cars.

Unreported debt

We obtained 2016-17 financial statements for Uxin's direct subsidiary Kaifeng Financing Lease (Hangzhou) Co., Ltd., a wholly owned Uxin subsidiary and the sole subsidiary of Uxin that is licensed to provide credit. That company has a mind-boggling ¥24.1 bln of debt on its books. In U.S. dollar terms, that's \$3.6 bln, more than twice the market capitalization of Uxin. The debt is not disclosed in U.S. financial statements.

Kaifeng is the principal engine of Uxin's China business. Kaifeng owns the cars that Uxin finances and notionally leases them to the buyers. The company's reports indicate that it carries loans collateralized by the cars whose sale it is facilitating. But if the value of the cars is significantly overstated, then the collateral coverage is inadequate. Hundreds of blog posts and news articles in China, like a post on 21cn¹⁷ and an article in Sohu news called "Uxin Loan Sharking: Cheating People Out of their Sweat-Money," that claims interest of 50% of the price of the car,¹⁸ accuse Uxin of using deceptive practices to charge interest rates that compute to about 18% annually. Lending practices that makes consumers feel cheated, when combined with high interest rates, make the default risk especially high.

Based on contracts we have viewed, we believe that Uxin takes the cars as collateral and technically owns them for the term of the "lease." As of December 31, 2017, Kaifeng Financing carried ¥24.08 bln in borrowings and ¥24.14 bln in long-term assets. The assets should be cars held against customers' payment of their loans. In its IPO prospectus, Uxin reports: "Cars purchased through our loan facilitation service are pledged as collateral to secure the loans." We suspect that this massive debt facility might have been used to take money out of the country.

Uxin's default risk is enormous. Kaifeng is already teetering on financial ruin. If the collateral—the cars—are as overvalued as evidence suggests, just a few defaults could send Kaifeng into insolvency.

¹⁷ <http://ts.21cn.com/tousu/show/id/746136>

¹⁸ http://www.sohu.com/a/235546474_100175030

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We purchased a credit report on Kaifeng. That report showed delinquent loans for a business unrelated to what Uxin reports: “factoring for imported and exported cars.” A Chinese news article that appeared in 2015 did mention that Kaifeng exports second-hand cars on behalf of Shenzhou, a large rental service provider.¹⁹

So Uxin is exporting or financing the export of used cars. It would be nice if investors knew about the risks this presents.

Weakening in 2019

We recently checked in with nine dealers—in Beijing, Shenzhen, Xian, Suzhou, and Shanghai—about their sales numbers through Uxin. Those who volunteered sales volumes for the current quarter all said that sales had declined in 2019.

- ▶ A Shanghai dealer said: Last year we sold 8-10 cars per month through Uxin. This year, in January, we sold one, in February four, in March through the 27th, two. This dealer also said that his company offered the same inventory on 10 websites.
- ▶ A Xian dealer told us that they sold 193 cars through Uxin in 2016, 207 in 2017, and 163 in 2018.
- ▶ Another Shanghai dealer said his company had sold 36 cars through Uxin in the second half of 2018 and has sold 13 in the first quarter of 2019.
- ▶ A third Shanghai dealer has been listing on Uxin for a year but has not sold any cars.
- ▶ A fourth Shanghai dealer sold 63 cars through Uxin in 2018 and has sold nine in Q1 2019.

Offline dealer

Many of the online auto dealers own offline second-hand car dealers, which enables them to purchase cars themselves if visible third-party sales num-

¹⁹ “Uxin gets \$170 mln in Financing from Baidu,” March 19, 2015, 36Kr: <https://36kr.com/p/220712>

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Service locations in Shanghai for Uxin (top), Guazi (middle) and 58.com (bottom). Photos by J Capital China investigator March 2019.

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Dai Kun took \$280 mln out of Uxin immediately before and after IPO without reporting an insider sale.

bers are low. Uxin is no exception: the company has an undisclosed 20% stake in the Beijing Lentuo Second Hand Auto Market.

Lentuo’s 45% owner is the auto dealer Lentuo, a famously unsavory Chinese reverse merger that was delisted from the New York Stock Exchange in 2015 after failing to respond to multiple queries from the SEC. GeoInvesting found that Lentuo had failed to disclose ¥250 mln in related-party debt.

Lentuo announced the joint venture deal in 2014, saying that the JV would become China’s biggest online-to-offline car dealer, but Uxin has never disclosed it.

The other owners are a subsidiary of the online auto dealer Bitauto (BITA) and Uxin, as well as another 5% owner. Buying and selling with this connected dealer would make it possible for Uxin to generate its own sales by creating circular transactions. One of our Uxin interviewees did not specifically know whether Uxin transacts with Beijing Lentuo, but he said that the online sales platforms set up offline auto companies to generate transactions and reduce taxes.

Hidden Insider Selling: How Dai Kun took \$280 mln out of Uxin

Dai Kun took \$280 mln out of Uxin immediately before and after IPO with-

Below is the list of owners of Beijing Lentuo Easy Car Second Hand Motor Vehicle Agency Co., Ltd. In order, they are:

1. Beijing Lentuo Automobile Group Ltd. ¥11 mln in equity contribution
2. Beijing Bitauto Information Technology Co. Ltd., ¥4 mln
3. Uxin Auction (Beijing) Information Technology Co. Ltd. ¥4 mln
4. Beijing Jinde Fund Car Sales Co. Ltd. ¥1 mln

股东信息 4

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股东类型	股东	认缴出资 (金额/时间)	实缴出资 (金额/时间)
企业法人	北京联拓机电集团有限公司	1100万人民币	-
企业法人	北京易车信息科技有限公司	400万人民币	-
企业法人	优信拍 (北京) 信息科技有限公司	400万人民币	-
企业法人	北京锦德基业汽车销售有限公司	100万人民币	-

Source: Qixin database service and the China State Administration of Industry and Commerce

out reporting an insider sale. He did it in two stages, first taking \$100 mln via a loan repaid in shares and then taking another \$180 mln with a “forced” margin sale. IR told us that management has never sold shares—technically true but not really true.

Stage 1: Uxin Loan to Dai Kun to Purchase Bertelsmann Shares

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On first glance at the Uxin prospectus (see pages 173 to 176)²⁰, it appears that Dai Kun received loans from Uxin to buy out shares in the company held by investment firms Bertelsmann and Amplewood. When examined closely, it is clear that Dai Kun used this loan arrangement as a smoke-screen to take \$100 mln in cash out of Uxin using share transfers in the 12 months before IPO.

Dai Kun borrowed a total of \$114 mln, including interest, from Uxin. This was revealed in correspondence with the SEC (see p 7)²¹. The first loan of \$17.7 mln in May 2015 was used to purchase two parcels of shares from Bertelsmann and Amplewood. The second loan of \$56.5 mln in July 2017 was used to pay \$41 mln to Bertelsmann to purchase shares, while the remaining \$18 mln was just cash to Dai Kun. Bertelsmann received \$61.3 mln for the shares. Uxin paid the difference of \$20.4 mln, and then the company recorded the payment as salary to Dai Kun (see Prospectus pages 122 and 173)²². The third and fourth loans to Dai Kun in July 2017 and May 2018, of \$22.8 mln and \$10.7 mln, were just cash to Dai Kun; no shares were purchased.

Table .3. Uxin \$114 mln in Loans to Dai Kun (USD mln)

Loan Disbursement in Cash							
Borrower	Lender	Loan Date	Principal	Interest	Total	Rate	Use
Xin Gao Group Limited (owned by Dai Kun)	Uxin	May 13, 2015	17.7	3.3	21.0	6%	Purchased Bertelsmann and Amplewood Shares
Gao Li Group (Owned by Dai Kun)	Uxin	July 19 2017	56.5	2.4	58.9	6%	Gao Li paid \$41 mln to Bertelsmann and received \$18 mln in additional cash. Uxin paid Bertelsmann an additional \$20.3 mln and recorded the payment as salary to Dai Kun.
Dai Kun	Uxin	July 19 2017	22.8	0.6	23.4	6%	Cash paid to Dai Kun
Dai Kun	Uxin	Dec 17 2017	10.7	0.005	10.7	6%	Cash paid to Dai Kun. Drawn down in May 2018
Total			107.7	6.3	114		

²⁰ <https://www.sec.gov/Archives/edgar/data/1729173/000104746918004795/a2236121z424b4.htm>

²¹ <https://www.sec.gov/Archives/edgar/data/1729173/000110465918039804/filename1.htm>

²² <https://www.sec.gov/Archives/edgar/data/1729173/000104746918004795/a2236121z424b4.htm>

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Loan Repayment in Shares							
Seller	Buyer	Date	Type	No	Surrender Value	Cost to Dai Kun	Notes
Xin Gao Group	Uxin	May 28, 2018	Ordinary	19.2	70.8	0.5	17.7 mln granted to Xin Gao, remaining 1.5 mln @ \$0.681
Xin Gao Group	Uxin	May 28, 2018	Series A	3.3	12.2	1.0	@ \$0.305
Xin Gao Group	Uxin	May 28, 2018	Series C-1	8.4	31.0	5.7	@ \$0.681
Total				31.0	114.0	7.2	

Source: Prospectus pp. 122, 173 – 176, F-138, [SEC Correspondence 13 June 2018](#)

Dai Kun repaid the loan on May 28, 2018, one month before the company's June 27 IPO, by transferring 31 million shares valued at \$3.68 each, for a total \$114 mln (Prospectus p. 176)²³.

Two weeks earlier, on May 14, 2018, Dai Kun had arranged for Uxin to grant him 17.7 mln shares at a cost of RMB589,631 to be recorded as compensation to him by the company when they vested (Prospectus p F-138)²⁴. These shares vested on the day of the IPO (June 27) but in effect they replaced 17.7 mln of the shares redeemed in the transfer two weeks later (May 28) for a value of \$65.3 mln. We estimate that the remaining 13.3 mln shares used in the transfer cost Dai Kun \$7.2 mln, based on the issue price of the Series A and Series C shares that were transferred.

Effectively, Dai Kun received \$107.7 mln in cash from Uxin in loan principal forgiven with shares that cost him a total of \$7.2 mln. This cash came out of a company that was losing massive amounts of money and borrowing heavily. Dai walked away with \$100 mln in cash from the transactions just one month before IPO, when shareholders are normally subject to lock up.

Stage 2: Netting \$180 mln from a “forced” share sale

In October 2017, Dai Kun took out a \$100 mln loan collateralized by 57 mln shares in Uxin, which he controlled via Kingkey New Era Auto Industry Limited, of which he owns 40%. The lender was a Chinese SOE listed in Hong Kong called China Huarong Asset Management Co., Ltd. (HK 2799), the largest distressed asset management company in China. Under the loan terms, receipts

²³ <https://www.sec.gov/Archives/edgar/data/1729173/000104746918004795/a2236121z424b4.htm>

²⁴ <https://www.sec.gov/Archives/edgar/data/1729173/000104746918004795/a2236121z424b4.htm>

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from a share sale in excess of the money owed would go to Dai Kun. The documents outlining the loan and how it was used to seize the shares were filed by Uxin in an SC 13D filing²⁵ on December 27, 2018.

Huarong added a margin provision²⁶ to the loan on September 28, 2018 that came into effect on December 1, 2018. The provision said that, should the share price fall below a certain LTV ratio for five consecutive trading days, then a margin call could be made. Dai Kun could then partly repay the loan, put up additional capital within two days, or surrender the shares. On the five trading days following the provision coming into effect, from December 3-7, 2018, the LTV fell below that ratio, which we estimate was 1:2. Dai Kun was requested to pay up or provide further collateral. He did not, and the shares were seized on December 14, 2018 (see 13D p 10)²⁷.

Shares tripled in price on unusually high volume before the massive sale, causing Uxin to lose 21% in a single trading day and then to fall by 64% in two weeks, as Huarong sold out of its position. The average volume of shares sold was 800,000 per day in the seven months before December 1, 2018, falling even lower, to an average of 400,000, in November 2018. In December, however, the average daily trade was 9.6 mln shares, an increase of 24 times over November. While the stock price in the first few days of December was the lowest since listing, it climbed to an all-time high on December 19, around the time the lender started to sell.

Uxin filed an SC13D disclosure on December 26, 2018, one week into the massive sale of shares, so shareholders had no warning. We estimate that two-thirds of the 57 mln shares seized had been sold off before the disclosure. On the day of disclosure, the stock price fell 21%. No lock-up provision was attached to this sale.

The loan terms stated that, when the shares were seized for a margin call, they could all be sold, and any remaining funds after repayment of the \$100 mln would be returned to Dai Kun. The documents with all of this information outlined were filed by Uxin in an SC 13D filing²⁸ on December 27, 2018. The windfall from that sale put roughly \$180 mln into Dai Kun's pocket, as we calculate below.

²⁵ <https://www.sec.gov/Archives/edgar/data/1729173/000114036118045756/formsc13d.htm>

²⁶ https://www.sec.gov/Archives/edgar/data/1729173/000114036118045756/ex99_5.htm

²⁷ <https://www.sec.gov/Archives/edgar/data/1729173/000114036118045756/formsc13d.htm>

²⁸ <https://www.sec.gov/Archives/edgar/data/1729173/000114036118045756/formsc13d.htm>

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We find it hard to understand why Uxin’s subsidiary needs to borrow such a huge amount of money--unless it is to help management take cash out of the company.

We believe Huarong started to sell the shares from December 19, 2018, shortly after it issued an instruction letter to Dai Kun. We estimate that up to 95% of those shares could have been sold before December 31, 2018—China Huarong did not file an ownership statement for the quarter ending December 31, 2018. We further estimate all of the shares were sold off by end of January 2019, for a total yield of \$449 mln, at an average price of \$7.86 per share. That would have delivered Dai Kun roughly \$180 mln in cash from the sale. Two other insiders that co-invested in Kingkey with Dai Kun, also subject to IPO lock-up, were Chen Jiarong and Jimmy Ching-Hsin Chang. Under the same assumptions, they made \$90 mln and \$180 mln, respectively, from the sale. This activity also went unreported as insider sales.

Chart 3. Uxin Stock Price (USD top) and Volume Average 15 days (mlns)



Source: Bloomberg

China Huarong is now embroiled in a corruption scandal. Its chairman was arrested and charged with corruption on November 7, 2018²⁹. The chairman of subsidiary Huarong Real Estate Co, which signed the loan with Dai Kun, was arrested and charged with corruption on January 22, 2019³⁰. The corruption case against the two chairmen is based on manipulating stocks in Hong Kong.

²⁹ <http://www.chinadaily.com.cn/a/201811/07/WS5be24c57a310eff30328716f.html>

³⁰ <https://www.reuters.com/article/us-china-corruption-china-huarong/china-prosecutors-order-arrest-of-four-ex-executives-at-huarong-for-bribery-idUSKCN1PG13X>

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Chart 3. Uxin Stock Price (USD top) Volume (mlns), December 2018



Source: Bloomberg

The timing of the margin call and share sale was the month after the first corruption case, and the share liquidation was completed before the second. We do not think this was a coincidence. We believe it is just a matter of time before this loan and the corruption investigation are revealed to be related. Huarong, with its huge balance sheet, could easily manipulate trading in Uxin shares if it chose to.

We believe the Uxin trading incident bears the hallmarks of collusion and could make Uxin the focus of investigators. The loan to Dai Kun was made in October 2017 by China Huarong Asset Management via Huarong Real Estate Co. and then another four entities before, ultimately, a special-purpose BVI vehicle was used for the loan. The loan was made before Uxin was listed, meaning that the share collateral was not liquid. That is very unusual, first, because of the risk that an IPO would not occur. Second, the shares used as collateral were not subject to lock-up. And third, the original loan did not include a margin provision. A margin provision was added on September 28, 2018 and came into effect on December 1, 2018.

If it turns out that Uxin had anything to do with abetting Huarong in the huge December sell-off, Uxin could be investigated in the related corruption case in China.

Crushed by debt

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We believe that the Uxin edifice could collapse without warning with just a small rise in market delinquencies. A look at Uxin's reported balance sheet betrays a company that is not only insolvent but careening toward default. Obligations are absolutely staggering—and undisclosed.

Uxin claims that it ended the bulk of its financial leasing business in 2015. As of year-end 2018, the company reported only \$68.8 mln in financial lease receivables on the accounts reported to U.S. investors. Uxin reports that it merely facilitates loans from "financing partners." The company claims that the only loans it carries on its own balance sheet are financial leases provided to dealers and loans to consumers that were originated before September 2015.

"In addition, prior to September 2015, we provided funds to consumers in the form of financial lease agreements. We continue to provide loans through our Easy Loan program to selected dealers in the form of financial lease agreements to help finance their inventory. In these arrangements, we are considered the loan originator and hold such loans on our balance sheet. We generate interest income from these arrangements. Interest income is measured at amortized cost using the effective interest method." (page 118, 424B4)

But Uxin's financial leasing subsidiary, Kaifeng, holds ¥24 bln in long-term loans and ¥24 bln in "other receivables." This is against shareholders' equity of just ¥436 mln and cash of ¥2.19 bln. This debt has not been reported to U.S. shareholders. The most recent Uxin balance sheet, for the period ending December 31, 2018, reports long-term borrowings of ¥481.8 mln and total liabilities of ¥4.97 bln.

Although the company says that it works with many lending companies, much of its business is through its financial leasing subsidiary, Kaifeng, as is amply proven by lawsuits and articles in the Chinese press. Kaifeng has 67 branches around the country to help process its loans. That Kaifeng is the recipient of loan payments is also evident from many contracts filed as part of legal proceedings by customers who feel they have been cheated.

The company does not disclose enough to indicate where those borrowings come from. We purchased a credit report on Kaifeng from a subsidiary of the People's Bank of China, and that report indicated that Kaifeng does not have bank debt despite the company's report to China's tax bureau indicating ¥24 bln in long-term borrowings. That could mean that the source of financing is shadow banks. The Kaifeng balance sheet, shown below in translation, reveals much more debt than the U.S. financials disclose.

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Table 5. Uxin's Kaifeng versus Yixin's Shanghai Yixin, 2017 financials in RMB

Balance Sheet	Kaifeng Financing Lease (Hangzhou) Co., Ltd.	Shanghai Yixin Financing Lease Co. Ltd.
Current Assets		
Cash	¥ 1,249,167,691	¥ 1,668,107,336
Accounts receivable	¥ 105,499,099	¥ 5,017,211
Prepaid accounts	¥ 46,954,403	¥ 23,994,128
Interest receivable	¥ 6,238,069	
Other receivables	¥ 104,116,366	¥ 147,896,793
Inventory		¥ 488,562
Other current assets	¥ 13,250,633,539	
Total current assets	¥ 1,845,504,030	¥ 14,762,609,168
Long-term equity investments	¥ 112,901,800	¥ 2,014,954,495
Long-term bond investments	¥ 15,333,879,539	
Fixed assets	¥ 1,607,316	¥ 1,231,069,739
Accumulated depreciation		¥ 98,992,154
Book value of fixed assets	¥ 1,607,316	¥ 1,132,077,585
Intangible assets	¥ 713,978	¥ 20,528,416
Long-term pre-paid accounts	¥ 7,339,743	
Other long-term assets	¥ 13,929,868,205	¥ 1,421,171,783
Total long-term assets	¥ 14,045,091,300	¥ 19,929,951,561
Total assets	¥ 15,890,595,330	¥ 34,692,560,729
Liabilities		
Short term loan		¥ 6,046,150,000
Bills payable		¥ 295,088,912
Accounts payable	¥ 193,486,994	¥ 787,669,683
Advance receipts	¥ 243,092	¥ 211,295,548
Payroll payable	¥ 17,481	¥ 39,140,444
Taxes payable	¥ 10,138,246	¥ 7,903,882
Interest payable		¥ 92,220,375
Other payables	¥ 1,616,903,112	¥ 1,664,421,209

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Liabilities	Kaifeng Financing Lease (Hangzhou) Co., Ltd.	Shanghai Yixin Financing Lease Co. Ltd.
Other current liabilities		¥ 9,862,326,578
Total current liabilities	¥ 1,800,512,433	¥ 19,006,216,631
Long-term loan	¥ 13,750,086,377	¥ 7,402,825,166
Long-term payables		¥ 43,658,040
Other long-term liabilities		¥ 38,614,875
Total long-term liabilities	¥ 13,750,086,377	¥ 7,485,098,081
Total liabilities	¥ 15,550,598,809	¥ 26,491,314,712
Paid-in capital	¥ 295,702,040	¥ 7,782,928,315
Capital reserve		¥ 166,133,475
Surplus reserve		¥ 25,218,423
Undistributed profit	¥ 44,294,480	¥ 226,965,804
Total owner's equity (or shareholders' equity)	¥ 339,996,520	¥ 8,201,246,016
Total liabilities and owner's equity (or shareholders' equity)	¥ 15,890,595,330	¥ 34,692,560,729
Income Statement	Kaifeng Financing Lease (Hangzhou) Co., Ltd.	Shanghai Yixin Financing Lease Co. Ltd.
Operating income	¥ 1,085,326,067	¥ 2,808,337,366
Less: operating costs	¥ 1,028,845,937	¥ 1,327,157,058
Business tax and surcharges	¥ 9,249,574	¥ 10,414,359
Sales costs	¥ 14,899,839	¥ 595,808,008
G&A	¥ 28,944,882	¥ 745,264,002
Finance Costs	¥ -5,412,800	¥ -655,564
Operating Profit	¥ 8,798,635	¥ 130,349,502
Other income	¥ 121,047	¥ 19,841,709
Other expenses	¥ 50,859	¥ 8,635,703
Late tax payment		¥ 17,894
Total Profit	¥ 8,868,823	¥ 141,555,509
Income Tax	¥ 2,749,561	¥ 37,712,001
Net Profit	¥ 6,119,262	¥ 103,843,508

Source: Chinese bureau of finance

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Indeed, we know from interviews with Uxin salespeople that two shadow banks provide most of Uxin's consumer loans: WeBank, which belongs to Tencent, and the less-known internet bank XWBank.⁵¹ Press reports also indicate that the company has sold asset-backed securities to raise money. In 2016 and 2017, Uxin was selling its ABS to the public on online platforms such as zichan100⁵² ("100% assets").

ABS is the preferred financing strategy of direct competitor Yixin Group (2858 HK). But Yixin fully reports its debt. And Yixin is profitable. In 2017, doing the exact same business, Yixin offered a better return on assets. Below are Chinese 2017 financials for each of the company's financial leasing subsidiaries.

Everything about Uxin suggests a company whose chief raison d'être is to hoodwink investors as much as possible in order for a few people in management to make a bundle of money from selling highly priced stock. There is no reason for public investors to play along.

⁵¹ The company website can be found here: <https://xwbank.com/#/index>

⁵² <https://www.zichan100.com/assethall>

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