

April 24, 2019
Uxin Ltd. (UXIN) China

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Uxin Ltd. (UXIN)

Keep Your Eyes on the Road

Like texting and driving, it's hard to focus on two things at once. That seems to be a challenge for Uxin.

On April 22, Uxin issued a response to our April 16 report that seemed to express outrage but failed to refute our allegations of fraud. But UXIN did disclose a few key issues for the first time:

- ▶ **The company does free transactions?** This is the first time we are hearing about these, which make reported volumes an empty number.
- ▶ **Uxin is, in fact, similar to Craigslist** in that it provides free listings without exclusivity.
- ▶ **Uxin does have massive and undisclosed debt.**
- ▶ **Uxin's response on the number of cities covered**—it says 900—contradicts what Investor Relations told us just one week before the report. Here is the relevant portion of the email from the company:

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On 4/10/19, 1:42 AM, nancysong@xin.com wrote:

We operated in over 300 cities in China as of 18Q4.

Kind regards,
Nancy

发件人: [Redacted]
 发送时间: 2019年4月10日 12:49
 收件人: 宋玉皎 <nancysong@xin.com>

Source: Email from UXIN IR

Reviewing the points one by one:

J Capital “shows a lack of basic knowledge of China’s administrative divisions”: Uxin management began its response with a bizarre narrative that has nothing to do with our report or, as far as we can tell, its business. Uxin goes into a lengthy exposition of China’s geographical organization, for reasons that we fail to understand. To reiterate our report, we showed that Uxin displays the same car in geographically distant locations. The first three entries in the table of cities we displayed from the piece of software we built are Alexazuo Banner, Ankang, and Anning. Alexazuo Banner is in Inner Mongolia, Ankang in southern Shaanxi Province, near Chongqing, and Anning is in Yunnan Province—northern, central-south, and Southwest China. These cities have nothing to do with each other geographically or administratively. What is the point? We are scratching our heads.

Undisclosed debt: We reiterate that Chinese financial statements clearly show borrowings of ¥24 bln by a 100% owned subsidiary of Uxin. Uxin has not disclosed this debt. The company provides no explanation as to why Chinese financials have all that extra debt, no distinction as to whether this debt is consumer- or dealer-related, and a very borderline SEC correspondence on whether the company should be principal or agent for consumer car financing loans. Whether principal or agent, in China, Uxin is clearly on the hook for \$3 bln in loans.

Circular transactions: The company all but admits in its response—“GMV is not revenue”—that it includes unrelated transactions in GMV. The company says it does not subsidize dealers to run unrelated transactions through Uxin accounts, but our interviews, as well as published articles in the Chinese press, clearly show that this is not the case.

Number of online listings: Investor relations told us on April 9 that Uxin had 200,000 cars in inventory. Management now says that Uxin has

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130,000 cars in inventory—the number our software tool found.

“Siphoning cash”: The company’s lengthy mea culpa on the loan to Dai Kun and the Huarong collateralized loan adds nothing to the discussion. We have clearly documented the share transactions that yielded cash to Dai Kun and others in management. As to specifics:

1. “As previously disclosed in the Uxin IPO Prospectus, Mr. Kun Dai and/or his controlled entities borrowed an aggregate of US\$107.7 million from Uxin, with principal and interest totaling US\$114 million (please refer to page 176 in the Uxin IPO Prospectus). *All of the aforementioned borrowings were used for Mr. Dai’s payment of consideration to increase his shareholding in Uxin between 2015 and 2017, and the costs and interest incurred in connection with third-party loans that were also taken out for these shareholding increases.*”

This statement is false. Dai spent a total of \$52.7 mln between 2015 and 2017 on increasing his shareholding, see UXIN prospectus pp. 122, 173, 175, F49 and F50. The remaining \$55 mln of principal was not spent on shares. UXIN is misleading shareholders with this statement.

2. Uxin asserts that the grant of shares to Dai weeks before they were surrendered to repay the loan is unrelated to the loan. Investors must make a judgement for themselves.
3. “According to the Schedule 13D filed by Huarong SPV with the SEC on December 26, 2018, and Schedule 13Gs filed by relevant shareholders with the SEC, before Uxin’s IPO Huarong SPV provided a loan of US\$100 million to Kingkey New Era Auto Industry Limited (“KK Entity”), an entity jointly controlled by Mr. Kun Dai and others, and KK Entity *used the loan proceeds to purchase shares issued by Uxin in the second last round of pre-IPO financing, and pledged all its shares in Uxin to Huarong SPV to secure the loan.*”

First, no entity called “Huarong SPV” filed a Schedule 13D with the SEC on December 26, 2018. The filer was a company called “Cathay Rong IV Limited.”

Second, the second-to-last round of financing before the IPO was entered into on August 31 and issued on October 21, 2017, for a total amount of \$50 mln. The \$100 mln loan to KK was entered into on October 25, 2017.

Third, in the loan document listed in Schedule 13D dated October 25, 2017

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in section 3.1, “Purpose” states clearly that Facility A, \$50 mln, is to be used only to purchase preference shares from DCM and not shares issued by UXIN. DCM was paid, and the shares were transferred to KK on October 27, 2017, two days after entering into the loan agreement. DCM is a Cayman Islands Company and one of UXIN’s independent directors. Rong Lu is a partner at DCM. Uxin is again misleading shareholders with this statement.

3. PURPOSE

3.1 Purpose

- (a) The Borrower must apply all amounts borrowed by it under Facility A towards the purchase of 4,026,808 Preference Shares from DCM and the costs and expenses associated with such purchase.
- (b) The Borrower must apply all amounts borrowed by it under Facility B towards repaying the shareholder loans used for (i) the subscription of 1,677,737 series G Preference Shares (or any part thereof) and/or the purchase of 4,026,808 Preference Shares from DCM (or any part thereof) and (ii) the Taxes, costs and expenses associated with such repayment, subscription or purchase.

Source: Schedule 13D dated the 25th October 2017 https://www.sec.gov/Archives/edgar/data/1729173/000114036118045756/ex99_2.htm

“Known as a cheat”: Uxin disapproves of our interpretation. Our report simply refers readers to a few of the many articles that have appeared in the Chinese press claiming that Uxin fakes its data. Lest investors believe the references in the report are insufficient, here are a few more links, randomly accessed:

“Coordinated Fraud by Uxin Has Been Reported”: Sitianjian, April 5, 2019, <http://www.sitianjian.com/opinion/56745.html>

“Uxin Used Cars Cheats Consumers: The One-Year Warranty Is a Blank Sheet of Paper,” Techweb, May 8, 2017: <http://www.techweb.com.cn/news/2017-05-08/2521198.shtml>

“Uxin Used Car Platform Is a Cheat”: Tianya BBS, September 23, 2017, <http://bbs.tianya.cn/post-cars-453790-1.shtml>

“Black Cat Lawsuit: Uxin Does Not Release Collateral When the Second-Hand Car Loan Is Repaid”: Yunhe, April 4, 2019 <https://www.88pxh.com/news/detail/73028.html>

If Uxin objects to these articles, it should address the authors. We believe it is useful to direct English-speaking investors to this press controversy in China. Don’t shoot the messenger.

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Salespeople and fake inspections: We conducted over 40 interviews. No salesperson told us that he or she had sold 20 cars in a month, as the company claims. The average was about five cars. As for altering the value of cars following an inspection, the interview data was unanimous, confirming that this is standard practice. We have also collected numerous public lawsuits alleging that, regardless of inspections, Uxin routinely fails to detect—or report--major damage to vehicles.

Falling volumes: In our interviews, nine dealers gave us monthly and annual counts of cars sold through Uxin. There was a year-on-year decline that is not accounted for by seasonality. We did not include some of the more negative comments. One dealer in Shanghai said “We have been working with Uxin for a year and have not sold one car.”

Stake in Lentuo: Uxin calls our report that it owns a 20% stake in an offline dealer a “false allegation” and then immediately confirms that the allegation is true.

We are pleased that Uxin has confirmed many of our findings. But the company has engaged in diversion and irrelevant posturing. We continue to believe that this company’s ADRs are worthless. But note that J Capital is short UXIN and will benefit if the price of the shares declines.

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