

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
(Amendment No. 1)

(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, 2019

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 001-39109

Fangdd Network Group Ltd.

(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)

**18/F, Unit B2, Kexing Science Park
15 Keyuan Road, Technology Park
Nanshan District, Shenzhen 518057
People's Republic of China**

(Address of principal executive offices)

**Jiaorong Pan
Chief Financial Officer
Fangdd Network Group Ltd.
18/F, Unit B2, Kexing Science Park
15 Keyuan Road, Technology Park
Nanshan District, Shenzhen 518057
People's Republic of China
Phone: +86 755 2699 8968**

(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
American depository shares, each representing 25 Class A ordinary shares, par value US\$0.0000001 per share	DUO	The Nasdaq Global Market
Class A ordinary shares, par value US\$0.0000001 per share*		The Nasdaq Global Market*

* Not for trading, but only in connection with the listing on the Nasdaq Global Market of American depository shares, each representing 25 Class A ordinary shares

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

None

(Title of Class)

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

None
(Title of Class)

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

As of December 31, 2019, there were (i) 1,203,322,178 Class A ordinary shares issued and outstanding, par value of US\$0.0000001 per share and (ii) 619,938,058 Class B ordinary shares issued and outstanding, par value of US\$0.0000001 per share.

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

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

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

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

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

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

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

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

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EXPLANATORY NOTE

This Amendment No. 1 (“Amendment No. 1”) to our [annual report on Form 20-F for the year ended December 31, 2019](#) originally filed with the U.S. Securities and Exchange Commission on April 15, 2020 (the “Original 2019 Form 20-F”) is being filed solely to add the following heading of a line item of the consolidated balance sheet appeared on page F-3 of the Report of Independent Registered Public Accounting Firm issued by KPMG Huazhen LLP, which was inadvertently omitted due to a clerical error:

“Accounts payable (including accounts payable of consolidated VIE without recourse to the Company of RMB1,107,836 and RMB1,897,219, as of December 31, 2018 and 2019, respectively. Note 1)”.

As required by Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, we are also filing as exhibits to Amendment No. 1 the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

Other than the matters described above, this Amendment No. 1 does not amend or modify any information included in any of the disclosure presented in the Original 2019 Form 20-F.

The Original 2019 Form 20-F, as amended by this Amendment No. 1, speaks as of the original filing date of the Original 2019 Form 20-F and does not reflect events that may have occurred subsequent to the original filing date of the Original 2019 Form 20-F.

ITEM 18. FINANCIAL STATEMENTS.

Included at the end of this annual report.

ITEM 19. EXHIBITS.

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	Fifth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to our registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
2.1	Registrant’s Specimen American Depositary Receipt (incorporated herein by reference to Exhibit 4.1 to our registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
2.2	Registrant’s Specimen Certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
2.3	Deposit Agreement among the Registrant, the depository and the owners and holders of American Depositary Shares, dated as of October 31, 2019 (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-237506), filed with the SEC on March 31, 2020)
2.4	Amended and Restated Shareholders’ Agreement, dated as of June 30, 2015, by and among the Registrant and the holders of the Registrant’s ordinary and preferred shares (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
2.5	Amendment to the Amended and Restated Shareholders Agreement, dated as of October 8, 2019, by and among the Registrant and the holders of the Registrant’s ordinary and preferred shares (incorporated herein by reference to Exhibit 4.5 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
2.6†	Letter Agreement, dated as of October 31, 2019, by and among the Registrant, certain shareholders of the Registrant and other parties
2.7†	Description of Securities
4.1	Amended and Restated 2018 Share Incentive Plan (incorporated by reference to Exhibit 10.1 to our S-8 registration statement (File No. 333-237506) filed with the SEC on March 31, 2020)
4.2	Form of Indemnification Agreement between the Registrant and its director and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)

4.3	Form of Director Agreement between the Registrant and its directors (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.5	English translation of the Business Operation Agreement, dated as of June 8, 2017 entered by and among Shenzhen Fangdd Information Technology Co., Ltd., Shenzhen Fangdd Network Technology Co., Ltd., and each shareholder of Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.5 to our registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.6	English translation of the Powers of Attorney, dated as of June 8, 2017, issued by each shareholder of Shenzhen Fangdd Network Technology Co., Ltd. to irrevocably appoint Mr. Jiancheng Li as such shareholder's attorney-in-fact to exercise all shareholder rights (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.7	English translation of the Equity Interest Pledge Agreement, dated as of March 21, 2014 and December 20, 2017, respectively, entered by and among Shenzhen Fangdd Information Technology Co., Ltd., Shenzhen Fangdd Network Technology Co., Ltd., and each shareholder of Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.8	English translation of the Supplementary Agreement to the Equity Interest Pledge Agreement, dated as of August 1, 2018, entered by and among Shenzhen Fangdd Network Technology Co., Ltd., Shenzhen Fangdd Network Technology Co., Ltd., and several shareholders of Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.9	English translation of the Technology Development and Application Service Agreement, dated as of March 21, 2014, entered by and among Shenzhen Fangdd Information Technology Co., Ltd. and Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.10	English translation of the Operation Maintenance Service Agreement, dated as of March 21, 2014, entered by and among Shenzhen Fangdd Information Technology Co., Ltd. and Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.11	English translation of the Option Agreements entered by and among Shenzhen Fangdd Information Technology Co., Ltd., Shenzhen Fangdd Network Technology Co., Ltd., and each shareholder of Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
4.12	English translation of the Supplementary Agreement to the Option Agreement, dated August 1, 2018, entered by and among Shenzhen Fangdd Information Technology Co., Ltd., Shenzhen Fangdd Network Technology Co., Ltd., and several shareholders of Shenzhen Fangdd Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-234130), as amended, initially filed with the SEC on October 8, 2019)
8.1†	Principal subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-234130) filed with the SEC on October 8, 2019)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1†	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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13.2†	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1†	Consent of KPMG Huazhen LLP, Independent Registered Public Accounting Firm
15.2†	Consent of Global Law Office
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 Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

† Previously filed or furnished with the Original 2019 Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to its annual report on its behalf.

Fangdd Network Group Ltd.

By: /s/ Yi Duan

Name: Yi Duan

Title: Chairman of the Board of Directors and Co-Chief Executive Officer

Date: May 12, 2020

FANGDD NETWORK GROUP LTD.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Fangdd Network Group Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Fangdd Network Group Ltd. (the Company) as of December 31, 2018 and 2019, the related consolidated statements of comprehensive income (loss), changes in (deficit) equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated 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 audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2016.

Shenzhen, China
April 15, 2020

Fangdd Network Group Ltd.
CONSOLIDATED BALANCE SHEETS
 (All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018 RMB	2019 RMB	US\$ Unaudited (Note 2(e))
Assets			
Current assets			
Cash and cash equivalents	443,586	1,103,747	158,543
Restricted cash	350,632	230,125	33,055
Short-term investments	71,483	11,500	1,652
Accounts receivable, net	1,352,596	2,189,980	314,571
Prepayments and other current assets	210,996	194,668	27,962
Total current assets	2,429,293	3,730,020	535,783
Non-current assets			
Property, equipment and software, net	15,450	8,298	1,192
Equity method investments	346,159	579,263	83,206
Long-term equity investment	56,000	40,000	5,746
Deferred tax assets	8,467	7,289	1,047
Other non-current assets	23,915	7,255	1,042
Total non-current assets	449,991	642,105	92,233
Total assets	2,879,284	4,372,125	628,016
Liabilities			
Current liabilities			
Short-term bank borrowings (including short-term bank borrowings of consolidated VIE without recourse to the Company of RMB395,000 and RMB490,000 as of December 31, 2018 and 2019, respectively. Note 1)	395,000	490,000	70,384
Accounts payable (including accounts payable of consolidated VIE without recourse to the Company of RMB1,107,836 and RMB1,897,219, as of December 31, 2018 and 2019, respectively. Note 1)	1,128,248	1,897,611	272,575

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018	2019	US\$
	RMB	RMB	Unaudited (Note 2(e))
Customers' refundable fees (including customers' refundable fees of consolidated VIE without recourse to the Company of RMB41,697 and RMB44,916 as of December 31, 2018 and 2019, respectively. Note 1)	41,697	44,916	6,452
Accrued expenses and other payables (including accrued expenses and other payables of consolidated VIE without recourse to the Company of RMB392,251 and RMB283,749 as of December 31, 2018 and 2019, respectively. Note 1)	425,470	338,626	48,641
Income tax payables (including income tax payables of consolidated VIE without recourse to the Company of RMB297 and RMB7 as of December 31, 2018 and 2019, respectively. Note 1)	369	7	1
Total current liabilities	1,990,784	2,771,160	398,053
Non-current liabilities			
Income tax payables (including income tax payables of consolidated VIE without recourse to the Company of RMB11,916 and RMB11,061 as of December 31, 2018 and 2019, respectively. Note 1)	12,646	11,910	1,711
Total non-current liabilities	12,646	11,910	1,711
Total liabilities	2,003,430	2,783,070	399,764

Commitments and contingencies (Note 19)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018	2019	
	RMB	RMB	US\$ Unaudited (Note 2(e))
Mezzanine equity			
Series A-2 Redeemable Convertible Preferred Shares (US\$0.0000001 par value, 148,147,900 shares authorized, issued and outstanding as of December 31, 2018, Redemption value of RMB102,743 and Liquidation value of RMB1,327,471 as of December 31, 2018)	102,743	—	—
Series B Redeemable Convertible Preferred Shares (US\$0.0000001 par value, 177,834,496 shares authorized, issued and outstanding as of December 31, 2018, Redemption value of RMB463,266 and Liquidation value of RMB1,818,209 as of December 31, 2018)	446,889	—	—
Series C Redeemable Convertible Preferred Shares (US\$0.0000001 par value, 286,959,017 shares authorized, issued and outstanding as of December 31, 2018 , Redemption value of RMB2,295,740 and Liquidation value of RMB3,950,470 as of December 31, 2018)	2,193,512	—	—
Total mezzanine equity	<u><u>2,743,144</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

Fangdd Network Group Ltd.
CONSOLIDATED BALANCE SHEETS (Continued)
 (All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018 RMB	2019 RMB	US\$ Unaudited (Note 2(e))
(Deficit) Equity:			
Ordinary shares (US\$0.0000001 par value, 2,275,948,587 shares authorized, 945,712,030 shares issued and outstanding as of December 31, 2018)	—	—	—
Class A Ordinary shares (US\$0.0000001 par value, 5,000,000,000 shares authorized including Class A and Class B ordinary shares, 1,203,322,178 shares issued and outstanding as of December 31, 2019)	—	1	—
Class B Ordinary shares (US\$0.0000001 par value, 5,000,000,000 shares authorized including Class A and Class B ordinary shares, 619,938,058 shares issued and outstanding as of December 31, 2019)	—	—	—
Series A-1 Convertible Preferred Shares (US\$0.0000001 par value, 102,102,318 shares authorized, issued and outstanding as of December 31, 2018)	5,513	—	—
Additional paid-in capital	55,052	4,880,135	700,988
Accumulated other comprehensive loss	(274,540)	(368,897)	(52,989)
Accumulated deficit	(1,653,315)	(2,922,184)	(419,747)
Total (deficit) equity	(1,867,290)	1,589,055	228,252
Total liabilities, mezzanine equity and (deficit) equity	2,879,284	4,372,125	628,016

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ Unaudited (Note 2(e))
Revenue	1,798,521	2,282,216	3,599,436	517,027
Cost of revenue	(1,416,933)	(1,805,588)	(2,842,394)	(408,284)
Gross profit	381,588	476,628	757,042	108,743
Operating expenses:				
Sales and marketing expenses	(38,461)	(59,099)	(48,395)	(6,952)
Product development expenses	(191,662)	(202,877)	(724,983)	(104,137)
General and administrative expenses	(156,329)	(145,277)	(520,421)	(74,754)
Total operating expenses	(386,452)	(407,253)	(1,293,799)	(185,843)
(Loss) Income from operations	(4,864)	69,375	(536,757)	(77,100)
Other income (expenses):				
Interest expense, net	(13,034)	(1,118)	(8,719)	(1,252)
Foreign currency exchange (loss) gain, net	(787)	684	237	34
Gain on short-term investments	3,255	5,512	2,771	398
Impairment loss for long-term equity investment	—	—	(16,000)	(2,298)
Government grants	12,402	8,792	22,351	3,211
Other income, net	3,141	5,648	7,724	1,110
Share of profit from equity method investees, net of income tax	2,902	19,566	21,772	3,127
Income (loss) before income tax	3,015	108,459	(506,621)	(72,770)
Income tax expense	(2,366)	(4,433)	(3,766)	(541)
Net income (loss)	649	104,026	(510,387)	(73,311)
Accretion of Redeemable Convertible Preferred Shares	(228,468)	(248,186)	(116,308)	(16,707)
Deemed dividend to preferred shareholder	—	—	(642,174)	(92,243)
Net loss attributable to ordinary shareholders	(227,819)	(144,160)	(1,268,869)	(182,261)

Fangdd Network Group Ltd.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Continued)
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			US\$ Unaudited (Note 2(e))
	2017 RMB	2018 RMB	2019 RMB	
Net income (loss)	649	104,026	(510,387)	(73,311)
Other comprehensive income (loss)				
Foreign currency translation adjustment, net of tax	110,667	(119,487)	(94,357)	(13,554)
Total comprehensive income (loss), net of tax	111,316	(15,461)	(604,744)	(86,865)
Net loss per share attributable to ordinary shareholders				
- Basic and diluted	(0.24)	(0.15)	(1.17)	(0.17)
Weighted average number of ordinary shares outstanding used in computing net loss per share				
- Basic and diluted	945,712,030	945,712,030	1,087,910,999	

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY
 (All amounts in thousands, except for share and per share data)

	Ordinary shares		Series A-1 Convertible Preferred Shares		Additional paid-in capital RMB	Accumulated other comprehensive (loss) income RMB	Accumulated deficit RMB	Total (deficit) equity RMB
	Shares	RMB	Shares	RMB				
Balance as of January 1, 2017	945,712,030	—	102,102,318	5,513	55,052	(265,720)	(1,281,336)	(1,486,491)
Net income for the year	—	—	—	—	—	—	649	649
Redeemable Convertible Preferred Shares redemption value accretion	—	—	—	—	—	—	(228,468)	(228,468)
Foreign currency translation adjustments, net of nil tax	—	—	—	—	—	110,667	—	110,667
Balance as of December 31, 2017	945,712,030	—	102,102,318	5,513	55,052	(155,053)	(1,509,155)	(1,603,643)
Net income for the year	—	—	—	—	—	—	104,026	104,026
Redeemable Convertible Preferred Shares redemption value accretion	—	—	—	—	—	—	(248,186)	(248,186)
Foreign currency translation adjustments, net of nil tax	—	—	—	—	—	(119,487)	—	(119,487)
Balance as of December 31, 2018	945,712,030	—	102,102,318	5,513	55,052	(274,540)	(1,653,315)	(1,867,290)

Fangdd Network Group Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIT) EQUITY (Continued)
(All amounts in thousands, except for share and per share data)

	Ordinary shares		Class A Ordinary shares		Class B Ordinary shares		Series A-1 Convertible Preferred Shares		Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Total (deficit) equity
	Shares	RMB	Shares	RMB	Shares	RMB	Shares	RMB				
Balance as of December 31, 2018	945,712,030	—	—	—	—	—	102,102,318	5,513	55,052	(274,540)	(1,653,315)	(1,867,290)
Net loss for the year	—	—	—	—	—	—	—	—	—	—	(510,387)	(510,387)
Redeemable Convertible Preferred Shares redemption value accretion	—	—	—	—	—	—	—	—	—	—	(116,308)	(116,308)
Deemed dividend to preferred shareholder	—	—	—	—	—	—	—	—	642,174	—	(642,174)	—
Foreign currency translation adjustments, net of nil tax	—	—	—	—	—	—	—	—	—	(94,357)	—	(94,357)
Re-designating ordinary shares to Class B ordinary shares	(619,938,058)	—	—	—	619,938,058	—	—	—	—	—	—	—
Re-designating ordinary shares to Class A ordinary shares	(325,773,972)	—	325,773,972	—	—	—	—	—	—	—	—	—
Conversion of Series A-1 Preferred Shares to Class A ordinary shares	—	—	102,102,318	—	—	—	(102,102,318)	(5,513)	5,513	—	—	—
Conversion of Series A-2, B and C Redeemable Convertible Preferred Shares to Class A ordinary shares	—	—	612,941,413	1	—	—	—	—	2,933,087	—	—	2,933,088
Issuance of Class A ordinary shares upon initial public offering ("IPO"), net of offering cost	—	—	162,504,475	—	—	—	—	—	498,436	—	—	498,436
Share-based compensation	—	—	—	—	—	—	—	—	745,873	—	—	745,873
Balance as of December 31, 2019	—	—	1,203,322,178	1	619,938,058	—	—	—	4,880,135	(368,897)	(2,922,184)	1,589,055
US\$ Unaudited (Note 2(e))	—	—	—	—	—	—	—	—	700,988	(52,989)	(419,747)	228,252

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
CONSOLIDATED STATEMENTS OF CASHFLOWS
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			US\$ Unaudited (Note 2(e))
	2017 RMB	2018 RMB	2019 RMB	
Cash flows from operating activities:				
Net income (loss)	649	104,026	(510,387)	(73,311)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities				
Depreciation and amortization	30,440	14,254	4,842	696
Share-based compensation expenses	—	—	745,873	107,138
Gain on short-term investments	(3,255)	(5,512)	(2,771)	(398)
Impairment loss for long-term equity investment	—	—	16,000	2,298
Share of profit from equity method investments, net of income tax	(2,902)	(19,566)	(21,772)	(3,127)
Other income, net	—	(493)	(8,321)	(919)
Dividend received from equity method investments	2,779	127	9,602	1,379
Allowances for doubtful accounts	10,715	42,337	58,981	8,472
Loss on disposal of property and equipment	698	831	439	63
Foreign currency exchange loss (gain)	787	(684)	(237)	(34)
Deferred income tax benefit	(911)	(2,107)	1,178	169
Changes in operating assets and liabilities:				
Accounts receivable	(641,518)	(564,317)	(893,223)	(128,303)
Deposits with real estate developers	(394,498)	397,868	—	—
Prepayments and other assets	(14,664)	(19,063)	29,846	4,287
Accounts payable	338,364	534,779	769,363	110,512
Customers' refundable fees	(17,747)	(17,181)	3,219	462
Accrued expenses and other payables	13,135	(344,494)	(84,943)	(12,201)
Income tax payables	3,502	8,673	822	(158)
Net cash (used in) provided by operating activities	(674,426)	129,478	118,511	17,025

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
CONSOLIDATED STATEMENTS OF CASHFLOWS (Continued)
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			US\$ Unaudited (Note 2(e))
	2017 RMB	2018 RMB	2019 RMB	
Cash flows from investing activities:				
Purchase of property, equipment and software	(4,628)	(8,442)	(1,695)	(243)
Proceeds from disposal of property, equipment and software	—	—	3,566	512
Investment in equity method investments	(63,000)	(404,204)	(579,492)	(83,239)
Investment in long-term equity investment	—	(56,000)	—	—
Return of capital from equity method investees	17,500	148,858	358,558	51,504
Proceeds from disposal of an equity method investment	—	3,400	4,500	646
Cash paid for short-term investments	(756,000)	(1,267,483)	(456,167)	(65,524)
Proceeds from disposal of short-term investments	1,018,255	1,234,012	518,921	74,538
Net cash provided by (used in) investing activities	212,127	(349,859)	(151,809)	(21,806)
Cash flows from financing activities:				
Proceeds from initial public offering, net of offering cost	—	—	498,436	71,596
Cash proceeds from short-term bank borrowings	663,100	415,000	540,030	77,570
Repayment for short-term bank borrowings	—	(683,100)	(445,030)	(63,925)
Net cash provided by (used in) financing activities	663,100	(268,100)	593,436	85,241
Effect of exchange rate changes on cash, cash equivalents and restricted cash				
	(40,020)	19,076	(20,484)	(2,944)
Net increase (decrease) in cash, cash equivalents and restricted cash	160,781	(469,405)	539,654	77,516
Cash, cash equivalents and restricted cash at the beginning of the year	1,102,842	1,263,623	794,218	114,082
Cash, cash equivalents and restricted cash at the end of the year	1,263,623	794,218	1,333,872	191,598
Supplemental information				
Interest paid	(14,527)	(17,214)	(18,411)	(2,645)
Income tax paid	(298)	(729)	(1,717)	(247)
Disposal of a subsidiary with net liability	—	—	(1,900)	(273)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data)

1. Organization and principal activities

Fangdd Network Group Ltd. (the “Company”) was incorporated in the Cayman Islands on September 19, 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. The registered office of the Company is at the offices of Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company, through its consolidated subsidiaries, variables interest entity and variables interest entity’s subsidiaries (together, “the Group”) is principally engaged in the provision of real estate information services through its online platform which also offers integrated marketing services for individual customers, real estate developers and agents in the People’s Republic of China (the “PRC”).

The accompanying Consolidated Financial Statements include the financial statements of the Company, its subsidiaries, variable interest entity (“VIE”) and the VIE’s subsidiaries.

Variable interest entity

The Group conducts the business in the PRC through Shenzhen Fangdd Network Technology Co. Ltd. (“Shenzhen Fangdd”), a limited liability company established under the laws of the PRC on October 10, 2011. Shenzhen Fangdd holds the necessary PRC operating licenses for the real estate agency and online business. The equity interests of Shenzhen Fangdd are legally held by individuals who act as nominee equity holders of Shenzhen Fangdd on behalf of Shenzhen Fangdd Information Technology Co. Ltd. (“Fangdd Information”). Shenzhen Fangdd entered into a series of contractual agreements with its legal shareholders and Fangdd Information, including the Business Operation Agreement, Powers of Attorney, Equity Interest Pledge Agreements, Exclusive Option Agreements, Operation Maintenance Service Agreement and Technology Development and Application Service Agreement (collectively, the “Shenzhen Fangdd VIE Agreements”) in March 2014 and were subsequently amended in 2017 to reflect the registration of the Equity Interest Pledge Agreements with the relevant registration authority and amended when certain nominee equity holders transferred their nominal shareholdings in Shenzhen Fangdd to other nominee equity holders.

Pursuant to the Shenzhen Fangdd VIE Agreements, the Group, through Fangdd Information, is able to exercise effective control over, bears the risks of, enjoys substantially all of the economic benefits of Shenzhen Fangdd, and has an exclusive option to purchase all or part of the equity interests in Shenzhen Fangdd when and to the extent permitted by PRC law at a nominal price. The Company’s management concluded that Shenzhen Fangdd is a consolidated VIE of the Group and Fangdd Information is the primary beneficiary of Shenzhen Fangdd. As such, the financial results of Shenzhen Fangdd and its subsidiaries are included in the Consolidated Financial Statements of the Company.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The principal terms of the agreements entered into among Shenzhen Fangdd, the nominee equity holders and Fangdd Information are further described below.

· *Business Operation Agreement*

Fangdd Information, Shenzhen Fangdd and Shenzhen Fangdd's shareholders have entered into a business operation agreement, pursuant to which Shenzhen Fangdd and its shareholders undertake not to enter into any transactions that may have material effects on the Shenzhen Fangdd's assets, obligations, rights or business operations without Fangdd Information's prior written consent.

Additionally, Shenzhen Fangdd's shareholders undertake that, without the Fangdd Information's prior written consent, they shall not (a) sell, transfer, pledge or otherwise dispose of any rights associated with their equity interests in Shenzhen Fangdd, (b) approve any merger or acquisition of Shenzhen Fangdd, (c) take any actions that may have a material adverse effect on Shenzhen Fangdd's assets, businesses and liabilities, or sell, transfer, pledge or otherwise dispose or impose other encumbrances of any assets, businesses or income of Shenzhen Fangdd, (d) request Shenzhen Fangdd to declare dividend or make other distribution, (e) amend Shenzhen Fangdd's articles of association, (f) increase, decrease or otherwise change Shenzhen Fangdd's registered capital. Fangdd Information may request Shenzhen Fangdd to transfer at any time all the intellectual property rights held by Shenzhen Fangdd to Fangdd Information or any person designated by Fangdd Information. Shenzhen Fangdd and certain of its shareholders, including Yi Duan, Jiancheng Li and Xi Zeng, shall be jointly and severally responsible for the performance of their obligations under this agreement. This agreement has a term of ten years, which may be extended upon Fangdd Information's unilateral written confirmation prior to the expiry. Shenzhen Fangdd has no right of transfer without Fangdd information's written confirmation or right of early termination while Fangdd Information may unilaterally transfer its rights and obligations under this agreement to third parties at any time through written notification and may early terminate this agreement via a 30-day prior written notice.

· *Powers of Attorney*

Each of the shareholders of Shenzhen Fangdd has issued a power of attorney, irrevocably appointing Mr. Jiancheng Li, a director of Fangdd Information, as such shareholder's attorney-in-fact to exercise all shareholder rights, including, but not limited to, the right to call shareholders' meeting, the right to vote on all matters of Shenzhen Fangdd that require shareholders' approval, and the right to dispose of all or part of the shareholder's equity interest in Shenzhen Fangdd, on behalf of such shareholder. The foregoing authorization is conditioned upon Mr. Jiancheng Li's continuing directorship at Fangdd Information and Fangdd Information's written consent to such authorization. In the event that Mr. Jiancheng Li ceases to serve as a director of Fangdd Information or that Fangdd Information requests the shareholders to terminate the authorization in writing, the power of attorney will terminate immediately and the shareholder shall then appoint any person designated by Fangdd Information as his or her attorney-in-fact to exercise all shareholder rights. Other than the foregoing circumstances, the power of attorney will remain in force until the termination of the business operation agreement and during its effective term, shall not be amended or terminated without consent of Fangdd Information.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

· *Equity Interest Pledge Agreements*

Each of the shareholders of Shenzhen Fangdd has entered into an equity interest pledge agreement with Fangdd Information and Shenzhen Fangdd, pursuant to which, the shareholders have pledged all of his or her equity interest in Shenzhen Fangdd to Fangdd Information to guarantee the performance by Shenzhen Fangdd and its shareholders of their obligations under the main contracts, which include technology development and application service agreement, the operation maintenance service agreement, the business operation agreement and the exclusive option agreements. Each shareholder of Shenzhen Fangdd agrees that, during the term of the equity interest pledge agreement, he or she will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Fangdd Information. The equity interest pledge agreements remain effective until Shenzhen Fangdd and its shareholders discharge all of their obligations under the main contracts. The Company has registered the equity pledge with the local branches of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

· *Exclusive Option Agreements*

Fangdd Information, Shenzhen Fangdd and each of the Shenzhen Fangdd's shareholders have entered into an exclusive option agreement, pursuant to which each of the Shenzhen Fangdd's shareholders has irrevocably granted Fangdd Information an exclusive option, to the extent permitted by PRC law, to purchase, or have its designated person or persons to purchase, at its discretion all or part of the shareholder's equity interests in Shenzhen Fangdd or all or part of Shenzhen Fangdd's assets. The purchase price shall be a nominal price unless where PRC laws and regulations require valuation of the equity interests or the assets, or promulgates other restrictions on the purchase price, or otherwise prohibits purchasing the equity interests or the assets at a nominal price. If the PRC laws and regulations prohibit purchasing the equity interests or the assets at a nominal price, the purchase price shall be equal to the original investment of the equity interests made by such shareholders or the book value of the assets. Where PRC laws and regulations require valuation of the equity interests or the assets or promulgates other restrictions on the purchase price, the purchase price shall be the minimum price permitted under PRC laws and regulations. However, if the minimum price permitted under PRC laws and regulations exceed the original investment of the equity interests or the book value of the assets, Shenzhen Fangdd's shareholders shall reimburse Fangdd Information the exceeded amount after deducting all taxes and fees paid under PRC laws and regulations. The shareholders of Shenzhen Fangdd undertake, among other things, that they shall not take any actions that may have material effects on Shenzhen Fangdd's assets, businesses and liabilities, nor shall they appoint or replace any directors, supervisors and officers of Shenzhen Fangdd without Fangdd Information's prior written consent. These agreements have terms of ten years, which may be extended upon Fangdd Information's written confirmation prior to the expiry.

· *Operation Maintenance Service Agreement*

Fangdd Information and Shenzhen Fangdd have entered into an operation maintenance service agreement, pursuant to which Fangdd Information has the exclusive right to provide Shenzhen Fangdd with operation maintenance services and marketing services. Without Fangdd Information's written consent, Shenzhen Fangdd shall not engage any third party to provide the services covered by this agreement. Shenzhen Fangdd agrees to pay service fees on an annual basis and at an amount determined by Fangdd Information after taking into account factors such as the labor cost, facility cost and marketing expenses incurred by Fangdd Information in providing the services. Unless otherwise agreed by both parties, this agreement will remain effective until Fangdd Information ceases business operations.

· *Technology Development and Application Service Agreement*

Fangdd Information and Shenzhen Fangdd have entered into a technology development and application service agreement, pursuant to which, Fangdd Information has the exclusive right to provide Shenzhen Fangdd with technology development and application services. Without Fangdd Information's written consent, Shenzhen Fangdd shall not accept any technology development and application services covered by this agreement from any third party. Shenzhen Fangdd agrees to pay service fees on an annual basis and at an amount determined by Fangdd Information after taking into account multiple factors, such as the labor and time consumed for provision of the service, the type and complexity of the services provided, the difficulties in providing the service, the commercial value of services provided and the market price of comparable services. Unless otherwise agreed by the parties, this agreement will remain effective until Fangdd Information ceases business operations.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

Risks in relation to Shenzhen Fangdd structure

In the opinion of the Company's management, the contractual arrangements have resulted in Fangdd Information having the power to direct activities that most significantly impact Shenzhen Fangdd and Shenzhen Fangdd's subsidiaries, including appointing key management, setting up operating policies, exerting financial controls and transferring profit or assets out of Shenzhen Fangdd and Shenzhen Fangdd's subsidiaries at its discretion. Fangdd Information considers that it has the right to receive all the benefits and assets of Shenzhen Fangdd and Shenzhen Fangdd's subsidiaries. As Shenzhen Fangdd and Shenzhen Fangdd's subsidiaries were established as limited liability companies under the PRC law, their creditors do not have recourse to the general credit of Fangdd Information for the liabilities of Shenzhen Fangdd and VIE's subsidiaries, and Fangdd Information does not have the obligation to assume the liabilities of Shenzhen Fangdd and VIE's subsidiaries.

The Group has determined that Shenzhen Fangdd VIE Agreements are in compliance with PRC laws and are legally enforceable. However, uncertainties in the PRC legal system could limit the Group's ability to enforce Shenzhen Fangdd VIE Agreements.

If the PRC government finds that these contractual arrangements do not comply with its restrictions on foreign investment in the internet business, or if the PRC government otherwise finds that the Group, the VIE, or any of its subsidiaries is in violation of PRC laws or regulations or lack the necessary permits or licenses to operate the business, the relevant PRC regulatory authorities, including but not limited to the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT"), which regulates internet information service companies, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses;
- discontinuing or restricting the operations;
- imposing fines or confiscating any of the income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which the Group or the PRC subsidiaries and affiliates may not be able to comply;
- requiring the Company or the PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations;
- placing restrictions on the right to collect revenues;
- restricting or prohibiting the use of the proceeds from this offering to finance the business and operations of the VIE; and
- taking other regulatory or enforcement actions that could be harmful to the business.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The imposition of any of these penalties could have a material and adverse effect on the business, financial condition and results of operations. If any of these penalties results in the inability to direct the activities of the VIE that most significantly impact its economic performance, and/or failure to receive the economic benefits from the VIE, the Group may not be able to consolidate the financial results of the VIE and its subsidiaries in Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles.

There is no VIE in which the Group has a variable interest but is not the primary beneficiary. Currently there is no contractual arrangement that could require the Group to provide additional financial support to Shenzhen Fangdd.

The following consolidated assets and liabilities information of the Group's VIE and VIE's subsidiaries as of December 31, 2018 and 2019, and consolidated operating results and cash flows information for the years ended December 31, 2017, 2018 and 2019, have been included in the accompanying Consolidated Financial Statements:

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,	
	2018 RMB	2019 RMB
Cash and cash equivalents	415,456	645,332
Restricted cash	4,727	957
Short-term investments	21,600	11,500
Accounts receivable, net	1,352,596	2,189,980
Amount due from related parties*	1,794	3,095
Prepayments and other current assets	210,764	194,423
Total current assets	2,006,937	3,045,287
Property, equipment and software, net	15,450	8,298
Equity method investments	341,825	574,930
Long-term equity investment	56,000	40,000
Deferred tax assets	8,467	7,289
Other non-current assets	23,915	7,255
Total non-current assets	445,657	637,772
Total assets	2,452,594	3,683,059
Short-term bank borrowings	395,000	490,000
Accounts payable	1,107,836	1,897,219
Customers' refundable fees	41,697	44,916
Amounts due to related parties*	285,621	278,487
Accrued expenses and other payables	392,251	283,749
Income tax payables	297	7
Total current liabilities	2,222,702	2,994,378
Non-current liabilities		
Income tax payables	11,916	11,061
Long-term loan from a related party**	300,000	534,000
Total non-current liabilities	311,916	545,061
Total liabilities	2,534,618	3,539,439

* Amounts due from and to related parties represent the amounts due from and to Shanghai Fangdd Information Technology Co., Ltd., Shanghai Fangdd Software Technology Co., Ltd. and its subsidiaries, which are eliminated upon consolidation.

** Long-term loan from a related party represents entrusted loan with a 3-year term at annual interest rate of 0.5%, which was borrowed by Shenzhen Fangdd during the year of 2018 and 2019 from Fangdd Information via Bank of China in Shenzhen, which are eliminated upon consolidation.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Total revenue	1,798,521	2,282,216	3,599,436
Net income (loss)	6,237	107,511	(520,230)
Net cash (used in) provided by operating activities	(663,005)	116,937	103,298
Net cash provided by (used in) investing activities	214,872	(303,375)	(206,192)
Net cash provided by financing activities	663,100	31,900	329,000
Net increase (decrease) in cash, cash equivalents and restricted cash	214,967	(154,538)	226,106
Cash, cash equivalents and restricted cash at the beginning of the year	359,754	574,721	420,183
Cash, cash equivalents and restricted cash at the end of the year	574,721	420,183	646,289

2. Summary of Significant Accounting Policies

(a) Basis of presentation

The Consolidated Financial Statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying Consolidated Financial Statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Group's ability to operate profitably, to generate cash flows from operations, and its ability to attract investors and to borrow funds on reasonable economic terms.

Historically, the Group has relied principally on both operational sources of cash and non-operational sources of equity and debt financing to fund its operations and business development. In addition, the Group can adjust the pace of its operation expansion and control the operating expenses of the Group. The management believes the Group will have sufficient cash resources from operations and financing support from investors to fund its continuing operation. Therefore, the Group's Consolidated Financial Statements have been prepared on a going concern basis.

(b) Principles of Consolidation

The accompanying Consolidated Financial Statements include the results of the Company, its subsidiaries, VIE and VIE's subsidiaries.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors. A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, exercises effective control over the activities that most impact the economic performance, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity.

All intercompany transactions and balances among the Company, its subsidiaries, VIE and VIE's subsidiaries have been eliminated upon consolidation.

(c) Use of Estimates

The preparation of the Consolidated Financial Statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenues and expenses during the reported period in the Consolidated Financial Statements and accompanying notes. Significant accounting estimates include, but not limited to, allowance for accounts and loans receivable, realization of deferred income tax assets, impairment loss for long-term equity investment and share-based compensation. Actual results may differ materially from those estimates.

(d) Foreign Currency

The Group's reporting currency is Renminbi ("RMB"). The functional currency of the Company and the Group's entities incorporated in the Cayman Island, British Virgin Islands ("BVI"), and Hong Kong ("HK") is the United States dollars ("US\$"). The functional currency of the Group's PRC subsidiaries, VIE and VIE's subsidiaries is RMB.

Transactions denominated in currencies other than the functional currency are remeasured into the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are remeasured into the functional currency using the applicable exchange rate at the balance sheet date. The resulting exchange differences are recorded as foreign currency exchange (gain) losses in the Consolidated Statements of Comprehensive Income (Loss). Total foreign currency exchange differences were a loss of RMB787, a gain of RMB684 and a gain of RMB237 for the years ended December 31, 2017, 2018 and 2019, respectively.

The financial statements of the Company and the Group's entities incorporated at Cayman Island, BVI and Hong Kong are translated from the functional currency into RMB. Assets and liabilities are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings (deficit) generated in the current period are translated into RMB using the appropriate historical rates. Revenues, expenses, gains and losses are translated into RMB using the average exchange rates for the relevant period. The resulted foreign currency translation adjustments are recorded as a component of other comprehensive income or losses in the Consolidated Statements of Comprehensive Income (Loss), and the accumulated foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or losses in the Consolidated Statements of Changes in (Deficit) Equity.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

(e) Convenience Translation

Translations of certain balances in accompanying Consolidated Financial Statements from RMB into US\$ as of and for the year ended December 31, 2019 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB 6.9618, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2019, or at any other rate. The US\$ convenience translation is not required under U.S. GAAP and all US\$ convenience translation amounts in the accompanying Consolidated Financial Statements are unaudited.

(f) Commitments and Contingencies

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

(g) Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits placed with banks or other financial institutions, which are unrestricted as to withdrawal or use, and which have original maturities of three months or less and are readily convertible to known amounts of cash.

(h) Restricted cash

Restricted cash represents:

- (i) cash deposited with banks of RMB345,905 and RMB229,268 as of December 31, 2018 and 2019, as collateral for borrowings from the banks (note 10). Restriction on the use of such cash and the interest earned thereon is imposed by the banks and remains effective throughout the term of the bank borrowings. Upon repayment of the bank borrowings, the bank deposits are available for general use by the Group.
- (ii) bank balances of RMB4,727 and RMB301 as of December 31, 2018 and 2019, respectively, held on behalf of home purchasers in respect of their down payments made for secondary property transactions of which legal title transfer from property sellers had not yet been completed. A corresponding liability with the same amount were recorded as down payments collected on behalf of secondary property sellers in accrued expenses and other payables.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

- (iii) bank balance of RMB 556 as of December 31, 2019 was frozen for a lawsuit undergoing with a supplier that a corresponding liability with the same amount were accrued.

Cash deposits restricted for use over one year after the balance sheet date are classified as non-current assets in the Consolidated Balance Sheets.

(i) Short-term investments

Short-term investments include investments in wealth management products issued by certain banks which are redeemable by the Company at any time. The wealth management products are either unsecured with variable interest rates or fixed interest rate. The Company measures the short-term investments at fair value using the quoted subscription or redemption prices published by these banks, with unrealized holding gains or losses, net of the related tax effect, excluded from earnings and recorded as a separate component of accumulated other comprehensive income (loss) until realized. Realized gains or losses from the sale of short-term investments are determined on a specific identification basis and are recorded as gain on short-term investments when earned in the Consolidated Statements of Comprehensive Income (Loss).

(j) Accounts Receivable

Accounts receivable mainly represent amounts due from the real estate developers for primary property business and individual customers for secondary property business upon the completion of their services. Accounts receivables are recorded net of an allowance for doubtful accounts, if any. The Group considers many factors in assessing the collectability of its accounts receivable, such as the age of the amounts due, the payment history, credit-worthiness and the financial condition of the debtor. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. The Group also makes a specific allowance if there is strong evidence indicating that an accounts receivable is likely to be unrecoverable. Accounts receivable are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure. Allowance of RMB 86,417 and RMB 142,256 was provided as of December 31, 2018 and 2019, respectively. Approximately 6% of the Group's accounts receivable represent output VAT amounts, which are excluded from the Group's revenues.

(k) Loans receivable, net

Loans receivable represents loan originated or purchased by the Group (see note 6). The Group has the intent and the ability to hold such loans for the foreseeable future or until maturity or payoff. Loans receivable are recorded at unpaid principal balances, net of allowance for loan losses that reflects the Group's best estimate of the amounts that will not be collected. The loans receivable portfolio consists of personal loans with term period ranging from 30 days to 5 years. In the Consolidated Balance Sheets, loans receivable that mature within the next twelve months from the balance sheet date are included in "Prepayment and other current assets" while loans receivable that will mature one year after the balance sheet date are included in "Other non-current assets".

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The allowance for loan losses is determined at a level believed to be reasonable to absorb probable losses inherent in the portfolio as of each balance sheet date. The allowance is provided based on an assessment performed on a portfolio basis. All loans are assessed collectively depending on factors such as delinquency rate, size, and other risk characteristics of the portfolio.

The Group writes off loans receivable and the related allowance when management determines that full repayment of such loan is not probable. The primary factor in making such determination is the estimated recoverable amounts from the delinquent debtor.

As of December 31, 2018 and 2019, loan receivables of RMB30,728 and RMB54,194 were due from the Group's employees respectively.

(l) Deposits with real estate developers

Certain property sales contracts entered with real estate developers provide the Group with exclusive selling rights for the selected properties for a specific period of time (the "Exclusive Sales Contracts"), which typically lasts for several months. Certain of these Exclusive Sales Contracts requires the Group or, in case of tri-party agreements (see note 12(3)), the Group's equity method investees to purchase any unsold units of properties at the end of the exclusive sales period (the "Sales Commitment Arrangements"). Under the Sales Commitment Arrangements, the real estate developers either enter into project sales contracts with the Group directly (the "Self-Commitment Arrangements") or enter into tri-party agreements with the Group and its equity method investees (the "Non-Group Commitment Arrangements"). The Group, or in case of tri-party agreements, its equity method investees is required to advance real estate developer an initial deposit prior to the commencement of the exclusive sales period. The amount of initial deposits required is generally determined at a percentage of the minimum transaction price, as pre-agreed with the real estate developer, of the properties (the "Base Transaction Price") to be sold to home purchasers in the market during the exclusive sales period. The amount of deposits advanced by the Group, or its equity method investees are adjusted throughout the exclusive sales period based on an agreed schedule such that 100% of the Base Transaction Price for the unsold properties, if any, is advanced to the real estate developers at the end of the exclusive sales period. If all properties are sold during the exclusive sales period, any outstanding deposits are immediately returned to the Group, or its equity method investees.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The Group believes its key management has sufficient knowledge and experience in the relevant real estate markets and has in place adequate process that guides its selection of projects, negotiation of terms and ongoing monitoring of risks.

Prior to entering into a Sales Commitment Arrangements, the Group would assess the marketability of the specified properties, the reasonableness of the Base Transaction Price and other relevant factors. The Group performs such assessment based on the results of its research activities and other factors such as the availability of agents' resources and has determined that the probability of all properties under such arrangements not being sold within the exclusive sales period is low. The Group believes that the developers enter into such Sales Commitment Arrangement largely due to liquidity consideration in that it could shorten the cash payback period through the receipts of deposits under the arrangement. Also, such Sales Commitment Arrangement may provide higher return to the developer when the properties are sold at a price in excess of the Base Transaction price (see note 2(s)). Therefore, the Group determines that it is remote that the real estate developers will request the Group, or for Non-Group Commitment Arrangements, the Group's equity method investees to purchase the unsold properties at the end of exclusive sales period. Management has concluded such assessment is supported by the historical experiences where developers agreed to an extended sales period for a few months in those limited instances where certain properties remained unsold at the end of exclusive sales period.

The Group began to enter into the above-mentioned Sales Commitment Arrangements in 2016. For the years ended December 31, 2017 and 2018, all properties under these arrangements were sold to the home buyers either within the exclusive sales period or during the extended sales period with all related deposits with the real estate developers being fully refunded. From 2018 onwards, the Group did not enter into any new property sales contracts with real estate developers under Self-Commitment Arrangements. Since then, all new property sales contracts with Sales Commitment Arrangement are entered with the property developers and equity method investees in tri-party agreements under the Non-Group Commitment Arrangements (see note 12(3)), pursuant to which the Group's equity method investees, rather than the Group, are required to pay the deposits directly to the property developers and obliged to purchase any unsold units of properties at the end of exclusive sales period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The deposits made by the Group under the Self-Commitment Arrangement are recorded as deposits with real estate developers, net of allowance for doubtful accounts, under current assets on the Consolidated Balance Sheets. The Group assesses the recoverability of the deposits with real estate developers based on a combination of factors, including the contractual terms, the developers' intention in entering into such arrangements as described above, the continuing assessment of the marketability of the properties during the exclusive sales period and the extended sales period, if any, historical experiences and negotiation results of developers' action at the end of exclusive sales period, and the market price of similar properties. An allowance for doubtful accounts against the deposits is recorded when any portion of deposits is considered not recoverable.

(m) Property, equipment and software , net

Property, equipment and software are stated at cost less accumulated depreciation, amortization and impairment. Property, equipment and software are depreciated and amortized at rates sufficient to write off their costs less impairment and residual value if any over their estimated useful lives on a straight-line basis. Leasehold improvements are depreciated on a straight-line basis over the period of the lease or their estimated useful lives, if shorter. The estimated useful lives are as follows:

Category	Estimated useful lives
Buildings	20 years
Leasehold improvements	2-3 years
Furniture, office equipment	3-5 years
Motor vehicles	3-4 years
Software	2-10 years

Expenditures for repairs and maintenance are expensed as incurred, whereas the costs of renewals and betterment that extends the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the costs, accumulated depreciation and impairment with any resulting gain or loss recognized in the Consolidated Statements of Comprehensive Income (Loss).

(n) Equity method investments

The Group accounts for an equity method investment over which it has significant influence but does not own a majority of the equity interest or otherwise controls and the investments are either common stock or in substance common stock using the equity method. The Group's share of the investee's profit and loss is recognized in the Consolidated Statements of Comprehensive Income (Loss).

The Group assesses its equity method investments for other-than-temporary impairment by considering factors as well as all relevant and available information including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends, and other Group-specific information such as financing rounds.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(o) Long-term equity investments

Long-term equity investments, except those accounted for under the equity method or those that result in the consolidation of the investee, that do not have readily determinable fair value are measured and recorded at cost, less impairment, with subsequent adjustments for observable price changes in orderly transactions for identical or similar equity investments of the issuer. Purchased options on these equity investments that are not derivatives are accounted for in a manner consistent with the accounting for the equity investments that do not have readily determinable fair value.

(p) Impairment of Long-lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. No impairment of long-lived assets was recognized for the years ended December 31, 2017, 2018 and 2019.

(q) Value added taxes

The Company's PRC subsidiaries are subject to value added tax ("VAT"). Revenue from sales of transaction and service is generally subject to VAT at the rate of 6% and subsequently paid to PRC tax authorities after netting input VAT on purchase of service received. The excess of output VAT over input VAT is reflected in accrued expenses and other payables, and the excess of input VAT is reflected in Prepayments and other current assets in the Consolidated Balance Sheets.

(r) Fair Value

Fair value represents 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Accounting guidance establishes a three-level fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs are:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Financial assets and liabilities of the Group primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, loans receivable, deposits with real estate developers, short-term bank borrowings, accounts payable, customers' refundable fees, accrued expenses and other payables. As of December 31, 2018 and 2019, the carrying values of these financial instruments approximated to their fair values due to the short-term maturity of these instruments.

(s) Revenue

In accordance with ASC 606, Revenue from Contracts with Customers, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; (5) recognize revenue when (or as) the entity satisfies a performance obligation.

Revenues are recorded net of value-added taxes and surcharges.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

Commission income

Through its platforms and services provided by real estate agents registered as a member in the Group's platform (the "Registered Agents"), the Group earns commission revenue from real estate developers for sales transactions of primary properties and to a lesser extent from home owners for sales or rental transactions of secondary properties. For services rendered by the Registered Agents in completing the transactions, the Group pays those the agents a commission fee. The real estate developers and home owners are collectively referred as the property owners. For each of the properties transactions, the Group enters into contracts with the Registered Agents (the "Agents' Contracts") and properties owners (the "Properties Sales Contracts") separately. As Registered Agents are involved in providing the services to the properties owners, the Group considers all the relevant facts and circumstances in determining whether it acts as the principal or as an agent in these properties transactions in accordance with ASC 606-10.

The Group has determined that it is a principal for the following reasons: (1) the Properties Sales Contract and the Agents' Contract are negotiated and entered into separately between the Group and the property owners and the Registered Agents, respectively, at the discretion of the Group, and there is no contractual relationship between the property owners and the Registered Agents; (2) the Group negotiates with the property owners the total commission fee to be paid by the properties owners. The Group also determines the commission rate payable to the Registered Agents at its discretion without any involvement of the properties owners; (3) pursuant to the Properties Sales Contracts, the Group is responsible for the sales or leasing of the properties. In particular, the Group is responsible to undertake the sales and marketing activities it considers necessary to induce potential home purchasers to visit the sales center of the property and complete the purchase of properties from the real estate developers. The Group is entitled to a pre-determined commission income upon the signing of the sales agreements between the real estate developers and the home purchasers pursuant to the Properties Sales Contracts. The Group's project management team carries out a series of activities including sales data analysis, development of project sales strategy, resources allocation, assignment of agents, sales and marketing activities, and monitoring of the entire sales process; (4) the Group monitors Registered Agents' services and provide them with instructions and guidelines in approaching and serving the home purchasers.

Commission income for sales transactions of primary properties and rental transactions for secondary properties are recognized by the Group upon the signing of the sales and purchase agreements or rental agreements and making the required down payment by the home purchasers or tenants. Commission income for sales transactions of secondary properties are recognized when the transfer over legal title of ownership of the properties between the home owners and home purchasers are complete.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The Group also enters into certain arrangements with real-estate developers pursuant to which potential home purchasers may pay the Group a fixed amount in return for a discount for their purchases of specified properties from the real estate developers. The fees paid by the home purchasers to the Group are fully refundable before the execution of the sales and purchase agreements between the home purchasers and the real estate developers. For these transactions, except for the fees received from the home purchasers, the Group is not entitled to any additional commission from the real estate developers. The Group recognizes commission income in the amount of fees received from the home purchasers when the Group's services are rendered upon the execution of the sales and purchase agreements between the home purchasers and the real estate developers. Fees received from home purchasers in advance of the revenue recognition are recorded as "Customers' Refundable Fees" (see note 11) on the Consolidated Balance Sheets.

For primary properties transactions, the Group generally earns a fixed commission rate ("Base Commission") of the pre-determined properties transaction price (the "Base Transaction Price") as stated in the Properties Sales Contracts. For certain primary properties transactions, the Group obtains exclusive sales right from real estate developers to sell the properties for a limited period of time and is required to advance certain amount of deposits. Not all of the Exclusive Sales Contracts contains Sales Commitment Arrangement as disclosed in note 2(l). Pursuant to those Exclusive Sales Contracts with Sales Commitment Arrangement, the Group is permitted to sell the properties in the market at a price above the Base Transaction Price. In addition to the Base Commission, the Group is entitled to an additional income (the "Sales Incentive Income"), determined at a progressive rate on the excess of the actual transaction price over the Base Transaction price. Same as Base Commission income, the Sales Incentive Income is also recognized as revenue upon the signing of the sales and purchase agreements and making the down payment by the home purchasers.

Franchise Income

The Group enters into franchise agreements with certain third party real estate agency companies located in those cities where the Group does not have an established sales office. Pursuant to these franchise agreements, the Group grants the franchisees with the right to use the Group's brands, access of listings in the Group's platform and other resources in return for a franchise fee. For franchise agreements entered in 2017, franchise fee is determined based on a percentage of the franchisee's gross commission income earned. Franchise income are recognized when the underlying franchisees' revenue is earned. For franchise agreements entered from 2018 onward, franchise fee is determined at an agreed fixed amount over a period of time and are recognized by the Group on a straight-line basis over the contractual period. During the years ended December 31, 2017, 2018 and 2019, the Group recognized franchise income of RMB13,400, RMB17,748 and RMB22,560, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Financial service income

The Group provides lending financial services to home purchasers, Registered Agents and the Group's employees who meet the Group's credit assessment requirements. Financial services income from loans receivable is recognized using the effective interest rate method.

Other value-added services

Other value-added services are recognized as revenue on a straight-line basis over which the services are rendered. They mainly represent subscription fee earned by offering Registered Agents with a suite of marketing and business technology products and services for use in a specified period of time so as to assist them growing and managing their businesses.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Loans facilitation services

Loans facilitation services are recognized as revenue when the relevant loans agreement signed and the related loans were drew down by the home purchasers. Loans facilitation services primarily consists of the services to facilitate the home purchasers, Registered Agents and other market participants borrowing from the financial institutions in the property transactions.

Parking space transaction facilitating services

Parking space transaction facilitating services are recognized as revenue when services are rendered to facilitate the appointment of real estate agents by Shenzhen Jinyiyun Supply Chain Technology Co., Ltd. (“Shenzhen Jinyiyun”), a related party, as agents for Shenzhen Jinyiyun’s parking space transactions. Certain directors and management of the Company are the principal shareholders of Shenzhen Jinyiyun. The Company’s services primarily consist of providing support and information to Shenzhen Jinyiyun to identify real estate agents in the Company’s platform and introduction of agents for Shenzhen Jinyiyun’s parking space transactions. The service fee is chargeable to the real estate agent and revenue is recognized upon signing of the relevant agency agreement. During the year ended December 31, 2019, the Group recognized parking space transaction facilitating services income of RMB28,877.

(t) Cost of Revenue

Cost of revenue primarily consists of agents’ commission, sharing of sales incentive income with fund providers, promotion and operational expenses, and salaries and benefits expenses that incurred for properties transactions.

(u) Sales and marketing expenses

Sales and marketing expenses mainly consist of advertising costs, which consist primarily of online and offline advertisements, are expensed when the services are received. The advertising expenses were RMB38,151, RMB57,767 and RMB47,883 for the years ended December 31, 2017, 2018 and 2019, respectively.

(v) Product development expenses

Product development expenses primarily consist of salaries and benefits expenses, depreciation of equipment relating to the development of new products or upgrading of existing products and other expense for the product activity of the Group. The Group expenses product development expenses as incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(w) General and administrative expenses

General and administrative expenses mainly consist of payroll and related staff costs for corporate functions, as well as other general corporate expenses such as rental expenses and depreciation expenses for offices and equipment for use by these corporate functions of the Group.

(x) Government grants

Government grants represent amounts granted by local government authorities as an incentive for companies to promote economic development of the local technology industry. Government grants received by the Group were non-refundable and were for the purpose of giving immediate incentive with no future costs or obligations are recognized in earnings in the Company's Consolidated Statements of Comprehensive Income (Loss).

(y) Share-based Compensation

Share-based awards granted to the employees and directors in the form of share options are subject to service and performance conditions. They are measured at the grant date fair value of the awards, and are recognized as compensation expense using the graded vesting method, net of estimated forfeitures, if and when the Company considers that it is probable that the performance condition will be achieved.

For vested awards, the Group recognizes incremental compensation cost in the period the modification occurs. For awards not being fully vested, the Group recognizes the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original awards over the remaining requisite service period after modification.

Estimation of the fair market value of the Company's ordinary shares involves significant assumptions that might not be observable in the market, and a number of complex and subjective variables, including the expected share price volatility (approximated by the volatility of comparable companies), discount rate, risk-free interest rate and subjective judgments regarding the Company's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants are made. Share-based compensation in relation to the share options is estimated using the Binominal Option Pricing Model. The determination of the fair value of share options is affected by the share price of the Company's ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple and expected dividend yield. The fair value of these awards was determined with the assistance from a valuation report prepared by an independent valuation firm using management's estimates and assumptions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(z) Employee Benefits

The Company's subsidiaries, the VIE and VIE's subsidiaries in China participate in a government mandated, multi-employer, defined contribution plan, pursuant to which certain retirement, medical, housing and other welfare benefits are provided to employees. PRC labor laws require the entities incorporated in China to pay to the local labor bureau a monthly contribution calculated at a stated contribution rate on the monthly basic compensation of qualified employees. The Group has no further commitments beyond its monthly contribution. The fair value of the employee benefits liabilities approximates their carrying value due to the short-term nature of these liabilities. Employee social insurance benefits included as expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss) amounted to RMB60,679, RMB45,010 and RMB54,958 for the years ended December 31, 2017, 2018 and 2019, respectively.

(aa) Income Tax

Income tax are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company reduces the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence, it is "more-likely-than-not" that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed at each reporting period based on a "more-likely-than-not" realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of futures profitability, the duration of statutory carryforward periods, the Company's experience with operating loss and tax credit carryforwards, if any, not expiring.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in income tax expense and penalties in general and administrative expenses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(bb) Leases

A lease is classified at the inception date as either a capital lease or an operating lease. A lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. Payments made under operating leases are charged to the Consolidated Statements of Comprehensive Income (Loss) on a straight-line basis over the lease term. The Group had no capital leases as of December 31, 2018 and 2019.

(cc) Earnings/(Loss) per Share

Basic earnings/(loss) per share is computed by dividing net income/(loss) attributable to ordinary shareholders, considering the accretions to redemption value of the preferred shares, by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, any net income is allocated between ordinary shares and other participating securities based on their participating rights. A net loss is not allocated to participating securities when the participating securities does not have contractual obligation to share losses.

The Company's preferred shares are participating securities as they participate in undistributed earnings on an as-if-converted basis. The preferred shares has no contractual obligation to fund or otherwise absorb the Group's losses. Accordingly, any undistributed net income is allocated on a pro rata basis to the ordinary shares and preferred shares; whereas any undistributed net loss is allocated to ordinary shares only.

Diluted earnings/(loss) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders, as adjusted for the accretion and allocation of net income related to the preferred shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of shares issuable upon the conversion of the preferred shares and convertible loan using the if-converted method, and ordinary shares issuable upon the vest of restricted ordinary shares or exercise of outstanding share option (using the treasury stock method). Ordinary equivalent shares are calculated based on the most advantageous conversion rate or exercise price from the standpoint of the security holder. Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(dd) Segment Reporting

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. For the purpose of internal reporting and management's operation review, the Group's Chief Executive Officer and management personnel do not segregate the Group's business by service lines. All service categories are viewed as in one and the only operating segment.

(ee) Statutory Reserves

The Group's subsidiaries, VIE and VIE's subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly foreign owned enterprise have to make appropriations from their after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to non-distributable reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the Group.

In addition, in accordance with the PRC Company Laws, the Group's VIE and VIE's subsidiaries, registered as Chinese domestic companies, must make appropriations from their after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the Group. Appropriation to the discretionary surplus fund is made at the discretion of the Group.

The general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted for use. They may only be applied to offset losses or increase the registered capital of the respective entity. The staff bonus and welfare fund is liability in nature and is restricted to make payment of special bonuses to employees and for the collective welfare of employees. None of these reserves is allowed to be transferred to the Group by way of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2017, 2018 and 2019, no appropriation was made to the general reserve fund by the Group's wholly foreign owned PRC subsidiaries, and no appropriation was made to the statutory surplus fund by the Group's VIE and VIE's subsidiaries which did not earn after-tax profits as determined under PRC GAAP. No appropriation has been made by these companies to discretionary funds.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(ff) Recent Accounting Pronouncements

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. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2018. For all other entities, it is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Group normally entered into operating leases for its office use. As disclosed in Note 19, the Group had future minimum lease commitments under non-cancellable operating lease agreements of RMB 26,965 as of December 31, 2019. As the Company is an “emerging growth company” and elects to apply for the new and revised accounting standards at the effective date for a private company, ASU 2016-02 will be applied for the fiscal year ending December 31, 2020. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements. So far, management believes that the adoption of ASU2016-02 would not have a material impact on the Consolidated Financial Statements.

On November 5, 2018, the FASB issued ASU 2018-18, which amended ASC 808 and ASC 606 to clarify that transactions in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer for a distinct good or service (i.e., unit of account). The guidance precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. The guidance is effective for public business entities in fiscal years beginning after 15 December 2019, and interim periods therein, and for all other entities, in fiscal years beginning after 15 December 2020, and interim periods beginning the following fiscal year. Early adoption is permitted for entities that have adopted ASC 606. For the transactions under collaborative arrangement entered by the Group, the Group should share income with the counterparty, who is not the Group’s customer. The management believe that ASU 2018-8 would not have a material impact on the Consolidated Financial Statements.

On November 2019, the FASB issued ASU 2019-10, which deferred the effective dates of ASU 2016-13 *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Credit Losses)* for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and ASU 2016-02 *Leases (Topic 842) (Leases)*, for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application continues to be allowed. As the Company is an “emerging growth company” and elects to apply for the new and revised accounting standards at the effective date for a private company, the deferred effective dates are applicable to the Company. Management is currently evaluating the impact of adopting ASU 2016-13 on the Consolidated Financial statements.

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3. Concentration and Risk

Concentration of customers

There are no customers from whom revenue individually represent greater than 10% of the total revenue of the Group for the years ended December 31, 2017, 2018 and 2019.

Concentration of credit risk

Assets that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and loans receivable included under prepayments and other current assets. As of December 31, 2017, 2018 and 2019, substantially all of the Group's cash and cash equivalents, restricted cash and short-term investments were held by reputable financial institutions located in the PRC and Hong Kong which management believes are of high credit quality and financially sound based on public available information.

Accounts receivable are typically unsecured and are primarily derived from revenue earned from real estate developers. The risk with respect to accounts receivable is managed by credit evaluations the Group performs on its customers and its ongoing monitoring of outstanding balances.

The Group is exposed to default risk on its loans receivable. The Group assesses the allowance for credit loss related to loans receivable on a quarterly basis, either on an individual or collective basis. As of December 31, 2017, 2018 and 2019, no individual loans receivable balance accounted for over 10% of the total loans receivable.

Cash concentration

Cash and cash equivalents and restricted cash mentioned below maintained at banks consist of the following:

	As of December 31,	
	2018 RMB	2019 RMB
RMB denominated bank deposits with:		
Financial Institutions in the PRC	429,266	654,946
U.S. dollar denominated bank deposits with:		
Financial Institutions in the Hong Kong	346,019	664,478
Financial Institutions in the PRC	18,933	14,448

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The bank deposits with financial institutions in the PRC are insured by the government authority for up to RMB500,000. The bank deposits with financial institutions in the Hong Kong are insured by the government authority for up to HK\$500,000. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on cash held in bank accounts. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC and Hong Kong.

Currency risk

The Group's operational transactions and its assets and liabilities are primarily denominated in RMB, which is not freely convertible into foreign currencies. The value of the RMB is subject to changes in the central government policies and international economic and political developments that affect the supply and demand of RMB in the foreign exchange market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances from China in currencies other than RMB by the Group must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

Interest rate risk

The Group's short-term bank borrowings bear interests at fixed rates. If the Group were to renew these loans upon maturity and the related banks only agree to offer variable rate for such renewal, the Group might then be subject to interest rate risk.

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4. Fair Value Measurement

The following table sets forth the Group's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy:

December 31, 2018

	Level 1 Inputs RMB	Level 2 Inputs RMB	Level 3 Inputs RMB	Balance at Fair Value RMB
Assets				
Short-term investments				
-Wealth management products	—	71,483	—	71,483
Long-term equity investment	—	—	56,000	56,000
Total Assets	<u>—</u>	<u>71,483</u>	<u>56,000</u>	<u>127,483</u>

December 31, 2019

	Level 1 Inputs RMB	Level 2 Inputs RMB	Level 3 Inputs RMB	Balance at Fair Value RMB
Assets				
Short-term investments				
-Wealth management products	—	11,500	—	11,500
Long-term equity investment	—	—	40,000	40,000
Total Assets	<u>—</u>	<u>11,500</u>	<u>40,000</u>	<u>51,500</u>

The Group values its investments in wealth management products issued by certain banks using quoted subscription/redemption prices published by these banks, and accordingly, the Group classifies the valuation techniques that use these inputs as level 2.

The Group's short-term investments as of December 31, 2018 and 2019 were acquired close to the year-end dates with maturity from seven days to one month, except for a short-term wealth management product issued by Bank of China in Shenzhen of RMB49,883 on April 28, 2018 with a 363-day term and a fixed annual interest rate and principle secured. This wealth management product has served as the collateral of a short-term loan of RMB49,000 from Bank of China in Shenzhen (see note 10) since July 2018. This wealth management product was due and redeemed by the Group on April 26, 2019 with the collateral released upon the short term bank loan of RMB49,000 repaid on the same day.

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Long-term equity investment was measured at costs, less impairment, with subsequent adjustments for observable price changes (see note 9), and are categorized within Level 3 under the fair value hierarchy. The values were estimated based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs including volatility, as well as rights and obligations of the securities that the Company holds.

There have no transfers between level 1, level 2 and level 3 categories.

5. Accounts receivable, net

Accounts receivable consist of the following:

	As of December 31,	
	2018	2019
	RMB	RMB
Accounts receivable from real estate developers	1,436,367	2,329,431
Accounts receivable from individual customers	2,646	2,805
	1,439,013	2,332,236
Less: allowance for doubtful accounts	(86,417)	(142,256)
Accounts receivable, net	1,352,596	2,189,980

As of December 31, 2018 and 2019, the Group pledged accounts receivable from real estate developers of RMB65,697 and RMB263,550 as security for the bank loans of RMB50,000 and RMB185,000, respectively (see note 10).

The following table presents the movement of allowance for doubtful accounts for the years ended December 31, 2017, 2018 and 2019.

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at the beginning of the year:	43,084	46,900	86,417
Provision for the year	8,014	39,517	55,839
Write-off	(4,198)	—	—
Balance at the end of the year	46,900	86,417	142,256

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6. Prepayments and other assets

		As of December 31,	
		2018	2019
		RMB	RMB
Loans receivable, net	(1)	74,068	70,531
Rental and other deposits		10,258	6,993
Security deposits with real estate developers	(2)	106,528	72,573
Deposits for investments	(3)	20,246	3,155
Others		23,811	48,671
Prepayments and other assets		234,911	201,923
Current Portion		210,996	194,668
Non-Current Portion		23,915	7,255
Total prepayments and other assets		234,911	201,923

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(1) Loans receivable, net

	As of December 31,	
	2018 RMB	2019 RMB
Secured personal loans	31,467	16,741
Unsecured personal loans	43,714	58,045
	75,181	74,786
Less: allowance for doubtful loans	(1,113)	(4,255)
Loans receivables, net	74,068	70,531
Current Portion	70,399	66,431
Non-Current Portion	3,669	4,100
Total loans	74,068	70,531

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As of December 31, 2018 and 2019, loans receivables are primarily personal loans made to home purchasers, home owners and Registered Agents and the Group's employees. These loans have an original term from 30 days to 5 years and carry interest rates between 3.6%~24% per annum.

On December 25, 2017, the Group entered into a one-year arrangement with an independent third party trust, under which the Group would refer home owners on their platform to obtain personal loans from the trust. The Group is entitled to a loan facilitation fee ranging from 0.8% to 4% of the amounts of completed loan transactions. The personal loans are secured by the home owners' properties. The Group provided guarantee on the principal and interest repayment of the loans to the trust and committed to purchase all the unpaid loans principal and accrued interests due from the home owners upon the end of the arrangement on December 25, 2018. Such guarantee was accounted for a derivative during the one-year agreement period under ASC 815 and the Group has determined that its fair value to be immaterial. On December 25, 2018, the Group purchased from the trust, pursuant to the arrangement, unpaid secured loans at a consideration of RMB21,424, determined based on the outstanding principal and interest payable by the home owners. These loans have been recorded in secured loans receivables of RMB21,424 and RMB14,760 on the consolidated balance sheet as at December 31, 2018 and 2019, with an allowance of doubtful loans of RMB3.1 million was made as of December 31, 2019.

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The following table sets forth the activity in the allowance for doubtful loans for the years ended December 31, 2018 and 2019:

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Balance at the beginning of the year:	1,324	1,411	1,113
Provision (Reversal) for the year	2,701	(493)	3,142
Write-off	(2,614)	—	—
Collection of previously written-off debtors	—	195	—
Balance at the end of the year	<u>1,411</u>	<u>1,113</u>	<u>4,255</u>

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The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs periodic evaluation of the adequacy of the allowance. The allowance is based on the Group's past loan loss history, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, composition of the loan portfolio, current economic conditions and other relevant factors. The allowance is calculated at portfolio-level since the loans portfolio is typically of smaller balance homogenous loans and is collectively evaluated for impairment. In estimating the probable loss of the loan portfolio, the Group also considers qualitative factors such as current economic conditions and/or events in specific industries and geographical areas, including unemployment levels, trends in real estate values, peer comparisons, and other pertinent factors such as regulatory guidance.

The following table sets forth the aging of loans receivable as of December 31, 2018 and 2019.

	As of December 31,	
	2018 RMB	2019 RMB
1-29 days past Due	26,945	2,109
30-89 days past Due	2,538	—
90-179 days past Due	2,482	5,434
Over 180 days past Due	6,495	18,803
Total past Due	38,460	26,346
Current	36,721	48,440
Total loans	75,181	74,786

- (2) The Group is required to advance certain deposits to obtain the exclusive selling right for a limited period of time even under exclusive sales contract without Sales Commitment Arrangement. The exclusive sales period normally last for a few months. Full deposits amounts are refundable at the end of the exclusive sales period.
- (3) The Group deposited investment funds of RMB16,246 and RMB3,155 for acquiring equity interests over certain limited partnerships as of December 31, 2018 and 2019, respectively. The Group had also deposited RMB4,000 for an investment to Guangxi Youju Technology Ltd ("Youju") as of December 31, 2018 subject to fulfillment of certain closing conditions. On May 15, 2019, a supplemental agreement was entered to terminate the capital injection agreement of Youju and refunded RMB4,000 to the Group in June 2019.

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7. Property, equipment and software, net

	As of December 31,	
	2018	2019
	RMB	RMB
Buildings	2,594	2,594
Leasehold improvements	44,798	45,008
Furniture, office equipment	26,703	21,642
Motor vehicles	10,189	2,825
Software	3,716	4,096
Total Property, equipment and software	88,000	76,165
Less: Accumulated depreciation and amortization	(72,550)	(67,867)
Total Property, equipment and software, net	15,450	8,298

Depreciation and amortization expenses were RMB30,440, RMB14,254 and RMB4,842 for the years ended December 31, 2017, 2018 and 2019, respectively.

8. Equity method investments

	RMB
Balance as of January 1, 2017	48,904
Additions	63,000
Share of results	2,902
Dividends received	(2,779)
Return of capital	(17,500)
Balance as of January 1, 2018	94,527
Additions	383,958
Share of results	19,566
Disposal of an equity method investment	(2,907)
Dividends received	(127)
Return of capital	(148,858)
Balance as of December 31, 2018	346,159
Additions	579,492
Share of results	21,772
Dividends received	(9,602)
Return of capital	(358,558)
Balance as of December 31, 2019	579,263

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During the years ended December 31, 2017, 2018 and 2019, the Group made certain significant equity method investments. The Group does not have controlling financial interests over these investees, but it has the ability to exercise significant influence over their financial and operating policies.

In connection with the Sales Commitment Arrangements as described in notes 2(l) and 2(s), the Group invested into certain limited partnerships as a limited partner. The Group has determined that given the design of these limited partnerships, they are considered to be unconsolidated VIEs and the Group is not considered to be the primary beneficiary, as further described below.

During the years ended December 31, 2017, 2018 and 2019, the limited partnerships were either involved in or invested by the Group for the purpose of the Sales Commitment Arrangements as a fund provider, details of which are disclosed in note 12(3) below. Under these arrangements, an initial deposit is required to be paid to the real estate developers prior to the commencement of the exclusive sales period. The limited partnerships are designed such that the investors (including the Group) would make their respective initial equity capital payments based on the initial deposit requirements. The investors are committed to provide additional capital funding in several tranches based on a funding schedule prepared taking into account of the forecast sale plan and actual progress of properties sales throughout the exclusive sale period.

The Group has determined that the total equity investment at risk of these limited partnerships is limited to the capital injected in these limited partnerships and does not include the commitments of the partners to contribute additional equity as the funding commitments are not reported as equity in the balance sheet of the limited partnerships. Capital investments of the partners are the only source of funding of these limited partnerships. In addition, the amount of paid-up capital at inception is limited to the funding requirements for the initial stage of the project. The Group has determined that the limited partnerships are VIEs as their total equity investments at risk are not considered to be sufficient to permit the limited partnerships to finance their activities without additional subordinated financial support.

To determine whether the Group is the primary beneficiary of these limited partnerships, the Group has evaluated whether it has both (i) the power to direct the activities of the limited partnerships that most significantly impact their economic performance; and (ii) the obligation to absorb losses of, or the right to receive benefits from, the limited partnerships that could potentially be significant to these entities.

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The Group determined that the activities that most significantly impact the economic performance of the limited partnerships include: (i) selecting real estate projects, (ii) negotiating the terms of sale commitment arrangement, (iii) monitoring the progress of property sales and (iv) for the limited partnerships under Non-Group Commitment Arrangements as described in note 12(3), managing the disposal of unsold properties, if any, at the end of the sales period that the limited partnerships are required to purchase from the property developer.

Based on these activities that the Group considered to be most significant, the Group evaluated who has the power to direct them beginning with an assessment of the parties involved in the ownership and governance structure of these limited partnerships. In this regard, each of the limited partnerships is sponsored by an investor that is unrelated to the Group. The investments of the sponsoring investor in the limited partnerships are generally in the form of both limited partnership interest and general partnership interest, with these partnership interests being held by two or more of the sponsoring investor's controlled subsidiaries. Under the limited partnership agreement, the general partner has the ability to make key management decisions for the limited partnership. In addition, the Group does not have any kick-out right or the unilateral ability to exercise any substantive participating rights. Accordingly, the Group has determined that the power to direct the activities that most significantly impact the economic performance rests with the general partner and the other limited partners that are all under the common control of the sponsoring investor.

The Group's obligation to absorb losses of, or the right to receive benefits from, the limited partnerships are limited to its committed capital investments or its rights to receive sharing of profit from the limited partnerships based on its proportionate share of the capital contributions.

Based on the analysis above, as the Group does not have the power to direct the activities of limited partnerships that most significantly impact their economic performance, the Group has concluded it is not the primary beneficiary of the limited partnerships established in connection with the Sales Commitment Arrangements. The Group determined that it has significant influence over these limited partnerships and therefore has accounted for its investments under the equity method.

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The Group considers, as a limited partner, that its maximum exposures to the losses from the limited partnerships are the maximum loss that could potentially be recorded through earnings in future periods as a result of its investments and other variable interests in the limited partnerships, regardless of the probability of the losses actually occurring. The Group's maximum exposures to the losses from the limited partnerships as of December 31, 2018 and 2019 are set out below, which represent the aggregated amounts of the carrying amounts of the investments in limited partnerships and the maximum amount of additional capital commitments as stipulated in the respective partnership deeds. The Group does not have any other obligation or commitment to provide any guarantee, loan or other financial support to the limited partnerships.

	Aggregated carrying amount of the limited partnerships RMB	Maximum amount of additional capital commitment (Note 19(b)) RMB	Maximum exposures to the losses of the limited partnerships RMB
Balance as of December 31, 2018	341,826	616,891	958,717
Balance as of December 31, 2019	574,929	502,661	1,077,590

The following limited partnerships were either involved in or invested by the Group for the purpose of the Sales Commitment Arrangements as a fund provider, details of which are disclosed in note 12(3) below. The Group's effective interests to the limited partnerships as of December 31, 2018 and 2019 are as below:

Name of the limited partnerships	As of December 31,	
	2018	2019
Shanghai Gefei Chengyun Investment Center Limited Partnership ("Gefei Chengyun")	20%	20%
Ningbo Meishan Jiushen Investment Limited Partnership ("Jiushen")	10%	10%
Ningbo Meishan Jiuchang Investment Limited Partnership ("Jiuchang")	49.95%	—
Tibet Shiguan Business Management Limited Partnership ("Shiguan")	27.6%	27.6%
Ningbo Meishan Jiuchuan Investment Limited Partnership ("Jiuchuan")	10%	10%
Ningbo Meishan Decheng Investment Limited Partnership ("Decheng")	2%	2%
Yiwu Longshu Tianye Investment Management Limited Partnership ("Longshutianye")	26%	26%
Yiwu Longshu Qianli Investment Management Limited Partnership ("Longshuqianli")	16%	—
Ningbo Meishan Jiuyi Investment Limited Partnership ("Jiuyi")	20%	20%
Ningbo Meishan Jiuyu Investment Limited Partnership ("Jiuyu")	20%	—
Ningbo Meishan Jiuzhen Investment Limited Partnership ("Jiuzhen")	20%	20%
Ningbo Meishan Yunde Investment Limited Partnership ("Yunde")	20%	20%
Ningbo Meishan Deyan Investment Limited Partnership ("Deyan")	20%	20%
Ningbo Meishan Detong Investment Limited Partnership ("Detong")	—	40%
Ningbo Meishan Derong Investment Limited Partnership ("Derong")	—	37%
Ningbo Meishan Jiushi Investment Limited Partnership ("Jiushi")	—	40%
Ningbo Meishan Qixing Management Limited Partnership ("Qixing")	—	15.7%
Shanghai Ruokun Management Limited Partnership ("Ruokun")	—	20%
Ningbo Meishan Deyu Investment Limited Partnership ("Deyu")	—	40%
Hangzhou Honggeng Investment Limited Partnership ("Honggeng")	—	20%

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During the years ended December 31, 2017, 2018 and 2019, the Group made additional investments into these limited partnerships and received return of capital from these limited partnerships, details of which are summarized below:

Name of the limited partnerships	For the Year Ended December 31,					
	2017		2018		2019	
	Capital Investments RMB	Return of capital RMB	Capital Investments RMB	Return of capital RMB	Capital Investments RMB	Return of capital RMB
Gefei Wenqin	—	16,000	—	—	—	—
Gefei Chengyun	1,000	1,500	—	(18,719)	—	—
Jiushen	35,000	—	65,000	—	17,000	(2,200)
Jiuchang	5,000	—	—	(2,380)	—	(2,620)
Shiguan	20,000	—	—	—	—	(20,000)
Jiuchuan	—	—	16,687	—	—	(5,569)
Decheng	—	—	463	—	—	—
Tianye	—	—	25,300	—	18,455	(12,049)
Qianli	—	—	2,807	(713)	—	(2,094)
Jiuyi	—	—	155,333	(87,853)	127,985	(169,152)
Jiuyu	—	—	26,000	(6,076)	—	(19,924)
Jiuzhen	—	—	33,000	(31,117)	2,250	—
Yunde	—	—	50,400	—	55,935	(64,993)
Deyan	—	—	8,968	—	—	(3,968)
Detong	—	—	—	—	31,000	(16,184)
Derong	—	—	—	—	55,555	(555)
Jiushi	—	—	—	—	185,000	(29,250)
Qixing	—	—	—	—	8,752	—
Ruokun	—	—	—	—	5,000	—
Deyu	—	—	—	—	70,360	(10,000)
Honggeng	—	—	—	—	2,200	—
Total	61,000	17,500	383,958	(146,858)	579,492	(358,558)

In addition to the above investments in limited partnerships, the Group also invested in following two investments that are accounted for under the equity method.

The Group held equity interests of 30% over Shanghai Qinlin Information Technology Co., Ltd (“Qinlin”) as of December 31, 2017. During the year ended December 31, 2018, the Group entered in a sale and purchase agreement with the founder of Qinlin to dispose entire equity interest over Qinlin at consideration of RMB17,000. As of December 31, 2018, the consideration of RMB3,400 was received and the management considered recoverability for remaining balance of consideration was uncertain. The Group recognized the income from disposal of RMB3,400 and recorded a gain on disposal of RMB493 for the year ended December 31, 2018. During the year ended December 31, 2019, the Group further received RMB4,500 which was recognized as other income.

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As of December 31, 2018 and 2019, the Group held equity interests of 40% over Shanghai Gefei Fangdd Asset Management Ltd. (“Shanghai Gefei Fangdd”). The Group invested RMB4,000 to obtain 40% equity interests over Shanghai Gefei Fangdd upon its establishment during the year end December 31, 2016. Shanghai Gefei Fangdd’s principal activities were assets management business and had not commenced operation as of December 31, 2019. The Group determined no impairment of the equity method investment as of December 31, 2018 and 2019.

Summary combined unaudited financial information for these equity method investees as of and for the year ended December 31, 2018 and 2019 are presented below:

	As of December 31,		
	2018 RMB	2019 RMB	
Balance sheet data:			
Current assets	1,615,143	1,423,869	
Non-current assets	327,355	514,215	
Total assets	1,942,498	1,938,084	
Current liabilities	366,398	711,188	
Total liabilities	366,398	711,188	
Equity	1,576,100	1,226,896	
Total liabilities and shareholders’ equity	1,942,498	1,938,084	
	For the year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Operating data:			
Revenue	66,996	224,377	124,610
Operating income	48,507	139,025	76,502
Net income	48,253	139,025	77,384

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9. Long-term equity investment

In accordance with the Capital Injection and Share Transfer Agreement entered between the Group, Chengdu Haofangtong Technology Corporation Limited (“Haofangtong”) and the existing shareholders of Haofangtong dated July 7, 2018, the Group agreed to acquire 26% equity interests of Haofangtong by (1) subscribing 4,029,543 newly issued shares (the “New Share Issuing”), which represents 7% equity interests of Haofangtong, with a consideration of RMB56,000 (2) an option to purchase 10,937,339 shares, representing 19% equity interests of Haofangtong after New Share Issuing, from the existing shareholders for RMB32,000 if Haofangtong and the existing shareholders of Haofangtong fulfill certain conditions under the agreement. Haofangtong’s principle activities are the development and sales of ERP for real estate agents.

On September 5, 2018, the Group completed the transaction of subscribing 4,029,543 newly issued shares of Haofangtong. Management has determined that the consideration paid of RMB56,000 represents the cost of (i) 7% equity interests of Haofangtong and (ii) a purchase option in respect of an additional 19% equity interests of Haofangtong from the existing shareholders for RMB32,000. The total consideration paid is allocated to the 7% equity interest and the purchase option, based on the valuation report prepared by an independent valuation firm.

The Group has determined that it does not have significant influence in Haofangtong and that there is no readily determinable fair value of Haofangtong’s shares. The investments in the 7% equity interests and the purchase option on additional equity interests are measured at their respective allocated costs, less impairment, with subsequent adjustments for observable price changes.

In December 2019, the Group determined that the decline in the fair value of the equity investments in Haofangtong, including the purchase option of additional equity interests, was other than temporary and an impairment loss of RMB16,000 was recorded in the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2019. The fair value is based on the valuation report prepared by an independent valuation firm.

10. Short-term bank borrowings

	As of December 31,	
	2018	2019
	RMB	RMB
Bank loans	395,000	490,000

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The weighted average interest rates of bank loans as of December 31, 2018 and 2019 are 4.94% and 5.5%, respectively. All bank loans as of December 31, 2018 and 2019 are secured.

From February to July 2018, the Group borrowed a one-year short-term loan of total RMB296,000 from China Merchants Bank, at annual interest rate ranging from 4.35% to 5.66%. Placement of cash deposits of US\$50,400 (equivalent to RMB345,996) in US\$ deposit in China Merchants Bank was provided by a subsidiary of the Group, FDD Network Holding Ltd., as collateral of the borrowings. It was fully repaid during the year ended December 31, 2019.

In July 2018, the Group borrowed a loan of RMB49,000 from Bank of China in Shenzhen with a 284-day term at annual interest rate of 4.79%. The short-term investment in wealth management product of RMB49,883 issued by Bank of China in Shenzhen are secured for the loan as collateral of the borrowings (see note 4). It was fully repaid during the year ended December 31, 2019.

From July to December 2018, the Group borrowed the loans of RMB50,000 from Bank of China in Shenzhen with a six-month term at annual interest rate of 6.09%. The Group pledged accounts receivable from real estate developers derived from the certain projects with the balance of RMB65,697 as of December 31, 2018 as security for the loans (see note 5). It was fully repaid during the year ended December 31, 2019.

In June 2019, Shenzhen Fangdd Network Technology Ltd. borrowed an 11-month loan of RMB50,000 from China Merchants Bank in Shenzhen, at annual interest rate of 4.35%. Placement of cash deposits of US\$8,000 (equivalent to RMB55,810) was provided by Fangdd Network Holding Ltd. as collateral of the borrowings.

In June 2019, Shenzhen Fangdd Network Technology Ltd borrowed one-year loans of RMB50,000 RMB from Bank of Shanghai in Shenzhen, at annual interest rate of 4.35%. Placement of cash deposits of US\$7,750 (equivalent to RMB54,065) with the bank was provided Fangdd Network Holding Ltd. as collateral of the borrowings.

In June 2019, Shenzhen Fangdd Network Technology Ltd borrowed one-year loans of RMB100,000 RMB from Agriculture Bank of China in Shenzhen, at annual interest rate of 4.35%. Placement of cash deposits of US\$17,100 (equivalent to RMB119,293) with the bank was provided Fangdd Network Holding Ltd. as collateral of the borrowings.

From May to December, 2019, the Group borrowed one-year short-term loans of total RMB30,000 from Bank of Shanghai, at annual interest rate of 6.09%. The Group pledged certain accounts receivable from real estate developers derived from the certain projects with balance of RMB37,970 for a line of credit of RMB100,000 for the period from April 2019 to March 2020,

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During the year ended December 31, 2019, the Group obtained 6-month loans of total RMB80,000 from Bank of China, at annual interest rate ranging from 5% to 6%. The Group pledged a series of accounts receivable from real estate developers derived from the certain projects with the balance of RMB92,452 as of December 31, 2019 as security for the loans.

In December, 2019, Agriculture Bank of China provided the Group with a one-year loan of RMB25,000, at an annual interest rate of 5%. Shenzhen Fangdd Network Technology Ltd. pledged accounts receivable from real estate developers derived from the certain projects with balance of RMB58,049.

In December 2019, the Group borrowed 6-month loans of total RMB20,000 from Bank of Hangzhou, all at annual interest rate of 6.09%. The Group pledged a series of accounts receivable from real estate developers derived from the certain projects with the balance of RMB51,128. The Group also obtained a one-year loan of RMB20,000 from China Construction Bank in August 2019, at an annual interest rate of 5.655%.

In 2019, China Zheshang Bank Co., Ltd. provided the Group with one-year loans of total RMB30,000, at an annual interest rate of 6.09%. Shenzhen Fangdd Network Technology Ltd. pledged accounts receivable from real estate developers derived from certain projects with balance of RMB23,951.

From October 2019 to July 2020, Shanghai Fangdd Network Technology Ltd. obtained loans of total RMB85,000 from Zhejiang Chouzhou Commercial Bank at annual interest rate of 7.8%. The loans are secured by real estate properties of a company owned by one of the founder's spouse, Suzhou Chaxiaobai Culture & Media Co., Ltd and one of the Company's equity method investment, Jiushi, as collateral of the borrowings (see note 20).

The loan agreements with China Merchants Bank, Agriculture Bank of China, Zhejiang Chouzhou Commercial Bank, China Construction Bank and Bank of China contain certain financial and non-financial covenants. As of December 31, 2018 and 2019, the Group is in compliance with the covenants.

11. Customers' refundable fees

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at beginning of year	76,625	58,878	41,697
Cash received from customers	797,529	554,539	409,781
Cash refunded to customers	(160,653)	(36,136)	(85,227)
Revenue recognized	(654,623)	(535,584)	(321,335)
Balance at end of year	<u>58,878</u>	<u>41,697</u>	<u>44,916</u>

Customers' refundable fees represent the commission income received in advance (see note 2(s)).

12. Accrued expenses and other payables

	As of December 31,	
	2018	2019
	RMB	RMB
Accrual for salary and bonus	52,188	36,632
Other taxes and surcharge payable	37,166	36,448
Down payments collected on behalf of secondary property sellers	(1)	301
Amounts due to franchisees	(2)	14,278
Amounts due to third party under collaborative agreements	(3)	—
Amounts due to equity method investees under collaborative agreements	(3)	—
Professional service fee	7,541	10,550
Others	252,654	240,417
Accrued expenses and other payables	<u>425,470</u>	<u>338,626</u>

- (1) These amounts were held on behalf of home purchasers in respect of their down payments made for secondary property transactions of which legal title transfer from property sellers had not yet been completed. (see note 2(h)(ii))
- (2) The Group entered into franchise agreements with certain real estate agency companies which are granted with the right to use the Group's brands, access of listings in the Group's platform and other resources. These amounts as of December 31, 2018 and 2019 represent the commission received on behalf of the real estate agency companies and guarantee deposits.
- (3) For those exclusive sales contracts with Sales Commitment Arrangements as described in note 2(l), the Group either enters into Self-Commitment Arrangements with the real estate developers directly or enters into Non-Group Commitment Arrangements under tri-party agreements with the real estate developers and the Group's equity method investees. Under both of these arrangements, the Group is responsible to render the properties sales services as specified in the exclusive sales contracts.

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For Self-Commitment Arrangements, the Group is required under the project sales contracts to advance the deposits and purchase any unsold properties at the Base Transaction Price at the end of exclusive sales period. The Group would either finance the entire deposits with its own fund or by entering into separate collaborative agreements with certain funds providers (the “Self-Commitment Collaborative Agreements”) that, are either independent third parties or the Group’s equity method investees, to fully or partially fund the deposits required. The funds providers provide the Group with the funds required and requested the funds to be designated for use in a specific Self-Commitment Arrangement. Pursuant to the Self-Commitment Collaborative Agreements, the Group is required to share with the funds provider a portion of the Base Commission Income and any Sales Incentive Income earned, based on the agreed profit sharing arrangements. However, the Group does not commit or guarantee them any minimum return. Also, there is no limit on the reward that accrues to either the Group or the funds providers. The amounts of profit shared with the funds providers under the Self-Commitment Collaborative Agreements are recorded in “Cost of revenue” in the Consolidated Statements of Comprehensive Income (Loss). The funds provided by these independent third parties or equity method investees to the Company to fulfil the deposits requirement under the Self-Commitment Arrangements are recorded as “Amounts due to third parties under collaborative agreements” or “Amounts due to equity method investees under collaborative agreements”. The deposits paid by the Group to the property developers, either using entirely its own funds or combining its own funds with funds provided by funds providers, are recorded as “Deposits with real estate developers” on the Consolidated Balance Sheets. The Group has not entered into any Self-Commitment Arrangements with real estate developers from 2018 onwards, all amounts due to third parties and equity method investees under collaboration agreements were fully repaid during the year ended December 2018.

For Non-Group Commitment Arrangements, the equity method investees of the Group are obliged to pay the deposits required directly to the real estate developers and subject to the commitment to purchase any unsold properties at the Base Transaction Price at the end of exclusive sales period. No payable to the equity method investees or deposits with real estate developers were recorded on the Consolidated Balance Sheets in respect of the deposits payments or refund transactions directly made by the funds providers to property developers, as the Group is not the obligator for such deposit payments or the purchase commitment regarding the unsold properties. The Group would enter into separate collaborative agreements (the “Non-Group Collaborative Agreements”) to set out the basis of sharing of the Base Commission Income and any Sales Incentive Income earned, with the equity method investees under the Non-Group Commitment Arrangements. And the Group does not commit or guarantee them any minimum return. Also, there is no limit on the reward that accrues to either the Group or these equity method investees.

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Under certain Non-Group Commitment Arrangements entered into amongst the Group, the equity method investees and real estate developers in 2019, the equity method investee (i.e. fund provider) has the option to withdraw from the arrangement by paying a penalty to the real estate developer at any time during the term of the arrangement. The withdrawal penalty is based on either not more than 10% of the total Based Transaction Price of all properties or not more than 10% of the Based Transaction Price of the unsold properties at the withdrawal date. The Group is not responsible for the penalty payment. Upon the withdrawal by the fund provider, the Non-Group Commitment Arrangement would be terminated and the Group would cease to have the right of exclusive sales. The withdrawal option of the fund provider is included in all outstanding Non-Group Commitment Arrangements as of December 31, 2019. There was no such withdrawal of the fund provider during the year ended December 31, 2019.

Although the Group is responsible to design and execute the overall sales plan as well as managing and directing its Registered Agents to facilitate the property transactions, the equity method investees do not simply provide financial resources but also participate in these processes through joint evaluation with the Group about the marketability of the specified properties and their pricing strategy. The Non-Group Collaborative Arrangements are accounted for under ASC 808 with costs incurred and revenue generated by the Group and the equity method investees reported in their respective Consolidated Statements of Comprehensive Income (Loss). Revenue earned from the real estate developer for property sales contracts with Non-Group Collaborative Agreements simultaneously entered with equity method investees are presented on a gross basis with the Base Commission Income and Sales Incentive Income recognized as "Revenue" and the amounts of profit shared with equity method investees recorded in "Cost of Revenue" in the Consolidated Statements of Comprehensive Income (Loss) as the Group is deemed to be the principal under these arrangements.

During the years ended December 31, 2018 and 2019, the Group earned Base Commission Income of RMB182,358 and RMB166,265 and Sales Incentive Income of RMB164,621 and RMB25,584 for those exclusive sales contracts with Sales Commitment Arrangements, respectively. Included in the total income earned from these Sales Commitment Arrangements during the years ended December 31, 2018 and 2019 was an amount of RMB260,235 and RMB191,849, respectively, that were related to Sales Commitment Arrangements with either Self-Commitment or Non-Group Collaborative Agreements, pursuant to which the Group shared RMB55,081 and RMB76,525 with the funds providers (including the Group's equity method investees).

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13. Taxation

a) Income tax

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Company's Hong Kong subsidiary is subject to Hong Kong profits tax at the rate of 16.5% on its taxable income generated from the operations in Hong Kong. A two-tiered Profits Tax rates regime was introduced since year 2018 where the first HK\$2,000 of assessable profits earned by a company will be taxed at half the current tax rate (8.25%) whilst the remaining profits will continue to be taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates. Payments of dividends by the subsidiary to the Company is not subject to withholding tax in Hong Kong.

PRC

Under the Enterprise Income Tax Law ("EIT Law") in the PRC, domestic companies are subject to EIT at a uniform rate of 25%. The Company's PRC subsidiaries, VIE and VIE's subsidiaries are subject to the statutory income tax rate at 25% unless otherwise specified. On October 31, 2017, Shenzhen Fangdd obtained a certificate from the Guangdong provincial government for a High and New Technology Enterprise ("HNTE") qualification. This certificate entitled Shenzhen Fangdd to enjoy a preferential income tax rate of 15% for a period of three years from 2017 to 2019 if all the criteria for HNTE status could be satisfied in the relevant year.

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Under the EIT Law and its implementation rules, an enterprise established outside China with a “place of effective management” within China is considered a China resident enterprise for Chinese enterprise income tax purposes. A China resident enterprise is generally subject to certain Chinese tax reporting obligations and a uniform 25% enterprise income tax rate on its worldwide income. The implementation rules to the New EIT Law provide that non-resident legal entities are considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that the legal entities organized outside the PRC should be treated as residents for 2008 EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC are deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%. Dividends paid to non-PRC-resident corporate investor from profits earned by the PRC subsidiaries after January 1, 2008 would be subject to a withholding tax. The EIT law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its non-PRC-resident corporate investor for earnings generated beginning on January 1, 2008. Due to the plan to indefinitely reinvest its earnings in the PRC, the Company has not provided for deferred tax liabilities on undistributed earnings of RMB8,557 and RMB8,909 as of December 31, 2018 and 2019, respectively.

Income (loss) before provision for income taxes is attributable to the following geographic locations for the years ended December 31:

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Cayman	(2,479)	(74)	13,620
Hong Kong SAR	(134)	7,042	(2,490)
BVI	(1)	(18)	(2)
PRC, excluding Hong Kong SAR	5,629	101,509	(517,749)
	3,015	108,459	(506,621)

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The Group had minimal current income tax expense for the years ended December 31, 2017, 2018 and 2019, as the majority of the companies in the Group either made a loss or had tax loss carry forwards to net against taxable income in the respective years.

Income tax expense consists of the following:

	For the Year Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Current income tax expense	3,277	6,540	2,588
Deferred income tax (benefit)	(911)	(2,107)	1,178
	2,366	4,433	3,766

The actual income tax expense reported in the Consolidated Statements of Comprehensive Income (Loss) for each of the years ended December 31 2017, 2018 and 2019 differs from the amount computed by applying the PRC statutory income tax rate of 25% to income before income taxes due to the following:

	For the Year Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Income/(loss) before tax	3,015	108,459	(506,621)
Income tax computed at PRC statutory tax rate	754	27,115	(126,655)
Tax rate differential not subject to PRC income tax	631	(576)	(3,193)
Non-deductible expense	4,147	2,245	151,990
Effect of preferential tax rate (Note*)	(3,102)	(5,153)	47,979
Change in valuation allowance	3,348	(8,651)	(56,920)
Additional deduction for research and development expenses	(3,412)	(8,732)	(9,700)
Tax-exempted income	—	(2,306)	(1,440)
Late payment surcharge on uncertain tax position	—	544	1,321
Other	—	(53)	384
	2,366	4,433	3,766

Note* Shenzhen Fangdd enjoys a preferential income tax rate of 15% from 2014 to 2019 if all the criteria for HNTE status could be satisfied in the relevant year. Please refer to Note 13 — a) PRC section for details. Shenzhen Fangdd will renew the HNTE status in 2020 and believes that it will obtain the HNTE status for an additional period of 3 years from 2020 to 2022.

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b) Deferred tax assets and liabilities

The tax effects of temporary differences that give rise to the deferred income tax assets and liabilities as of December 31, 2018 and 2019 are as follows:

	As of December 31,	
	2018 RMB	2019 RMB
Net operating loss carry forward	142,793	71,588
Allowance for doubtful accounts	17,208	27,229
Payroll and accrued expenses	2,148	2,898
Deductible advertisement expenses	158	94
Long-term equity investment impairment	—	2,400
Total deferred tax assets	162,307	104,209
Less: Valuation allowance	(153,840)	(96,920)
Deferred tax assets	8,467	7,289

The movements of the valuation allowance are as follows:

	For the Year Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Balance at the beginning of the year	(159,143)	(162,491)	(153,840)
Changes of valuation allowances	(3,348)	8,651	56,920
Balance at the end of the year	(162,491)	(153,840)	(96,920)

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Management believes it is more likely than not that the deferred tax asset, net of the valuation allowance as of December 31, 2018 and 2019, will be realized. However, the amount of the deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced. As of December 31, 2019, the valuation allowance of RMB96,920 was related to the deferred income tax asset of certain subsidiaries of the Company. These entities were in a cumulative loss position, which is a significant negative indicator to overcome that sufficient income will be generated over the periods in which the deferred income tax assets are deductible or utilized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or utilized. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The net operating losses carry forwards of the Company's PRC subsidiaries amounted to RMB284,029 as of December 31, 2019, of which RMB4,053, RMB73,599, RMB152,419, RMB45,659 and RMB8,299 will expire if unused by December 31, 2020, 2021, 2022, 2023 and 2024, respectively.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the years ended December 31, 2017, 2018 and 2019 is as follows:

	For the Year Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Beginning balance	(812)	(3,697)	(12,646)
(Additions)/deduction	(2,885)	(8,949)	736
Ending balance	(3,697)	(12,646)	(11,910)

RMB12,646 and RMB11,910 of unrecognized tax benefits as of December 31, 2018 and 2019 are related to uncertainty with regards to the deductibility of certain business expenses incurred as well as recognition of certain income for tax purpose. Those, if recognized, would affect the effective tax rate. The unrecognized tax benefits as of December 31, 2018 and 2019 were included in other non-current liabilities. The Company is currently unable to provide an estimate of a range of total amount of unrecognized tax benefits that is reasonably possible to change significantly within the next twelve months. The accrued interest and penalties were recognized in the Consolidated Statements of Comprehensive Income (Loss) as components of income tax expense.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years for tax underpayment due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100. In the case of transfer pricing issues, the statute of limitations is 10 years. There is no statute of limitations for tax evasions.

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14. Redeemable Convertible Preferred Shares

All of the Redeemable Convertible Preferred Shares were converted to Class A ordinary shares immediately upon the completion of the Company's initial public offering on November 1, 2019.

Redeemable Convertible Preferred Shares consist of the following:

	Series A-2 Preferred Shares	Series B Preferred Shares	Series C Preferred Shares	Total
Balance as of January 1, 2017	88,300	384,068	1,805,678	2,278,046
Redemption value accretion	7,250	31,532	189,686	228,468
Foreign currency translation adjustment	(5,736)	(24,949)	(118,750)	(149,435)
Balance as of December 31, 2017	89,814	390,651	1,876,614	2,357,079
Redemption value accretion	7,735	33,646	206,805	248,186
Foreign currency translation adjustment	5,194	22,592	110,093	137,879
Balance as of December 31, 2018	102,743	446,889	2,193,512	2,743,144
Redemption value accretion	3,041	15,642	97,625	116,308
Foreign currency translation adjustment	2,747	11,870	59,017	73,634
Conversion of Redeemable Convertible Preferred Shares to Class A Ordinary Shares	(108,531)	(474,401)	(2,350,154)	(2,933,086)
Balance as of December 31, 2019	—	—	—	—

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Since the date of incorporation, the Company has completed four rounds of financing by issuing preferred shares, namely, Series A-1 and A-2 preferred shares issued in 2013 (the Series A-1 preferred shares and Series A-2 preferred shares are collectively referred as “Series A preferred shares”), Series B preferred shares issued in 2014, and Series C preferred shares issued in 2015. Series A-1 preferred shares are non-redeemable convertible preferred shares while the other series preferred shares are redeemable and convertible.

On October 25, 2013, the Company entered into a share purchase agreement with the Series A Investors and pursuant to which, the Company issued 259,257,900 shares of Series A preferred shares, of which 111,110,000 series A-1 preferred shares were issued at par value and 148,147,900 series A-2 preferred shares were issued at a price of US\$0.07 per share with total consideration of US\$9,830 (equivalent to approximately RMB58,980) (see note 16 for the detail of Series A-1 preferred shares). The issuance of the Series A preferred shares was completed in 2013.

On June 12, 2014, the Company entered into a share purchase agreement with the Series B Investors and pursuant to which, the Company issued 177,834,496 shares of Series B preferred shares at a price of US\$0.25 per share with total consideration of US\$45,000 (equivalent to approximately RMB276,764). The issuance of the Series B preferred shares was completed in 2014.

On June 30, 2015, the Company entered into a share purchase agreement with the Series C Investors and pursuant to which, the Company issued 286,959,017 shares of Series C preferred shares at a price of US\$0.78 per share with total consideration of US\$223,000 (equivalent to approximately RMB1,364,046). The issuance of the Series C preferred shares was completed in 2015. Pursuant to the agreement with Series C Investor, the Company repurchased on 29,596,670 ordinary shares with consideration of US\$ 23,000 (equivalent to approximately RMB140,612), and 9,007,682 Series A-1 preferred shares with consideration of US\$ 7,000 (equivalent to approximately RMB42,000).

On October 8, 2019, the Company granted an option to acquire 172,908,894 Class A ordinary shares at par value to its Series C preferred shareholder, Greyhound Investment Ltd., in exchange for, among other things, the shareholder’s consent to amend the qualified IPO definition in the Company’s shareholders’ agreement and articles of association to authorize the offering the Company then contemplated. The option granted to Greyhound Investment Ltd. is exercisable on the earlier of (i) 61 calendar days after the completion of the offering, and (ii) February 14, 2020. During the year ended December 31, 2019, the fair value of the option granted to Greyhound Investment Ltd. On October 8, 2019 of RMB642,174 was recorded as a deemed dividend. Greyhound Investment Ltd. exercised the option on January 7, 2020.

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The Company has classified the Series A-2 Preferred Shares, Series B Preferred Shares and Series C Preferred Shares as mezzanine equity in the Consolidated Balance Sheets since they are contingently redeemable at the option of the holders after a specified time period.

The Company has determined that conversion and redemption features embedded in the Redeemable Preferred Shares are not required to be bifurcated and accounted for as a derivative, as the economic characteristics and risks of the embedded conversion and redemption features are clearly and closely related to that of the Preferred Shares. The Preferred Shares are not readily convertible into cash as there is not a market mechanism in place for trading of the Company's shares.

The Company has determined that there was no beneficial conversion feature attributable to any of the Preferred Shares because the initial effective conversion prices of these Preferred Shares were higher than the fair value of the Company's ordinary shares at the relevant commitment dates.

In addition, the carrying values of the Preferred Shares are accreted from the share issuance dates to the redemption value on the earliest redemption dates. The accretions are recorded against retained earnings, or in the absence of retained earnings, additional charges are recorded by increasing the accumulated deficit.

The rights, preferences and privileges of the Preferred Shares are as follows:

Redemption Rights

At any time on or after June 12, 2019 if there is no Qualified Initial Public Offering ("Qualified IPO"), each of the holders of a majority of the then outstanding Series A-2 Preferred Shares and Series B Preferred Shares may request a redemption of the Preferred Shares of such series.

At any time after the earlier of (a) the fifth anniversary of the commitment date of the series C preferred shares purchase agreement ("Closing Date") (if there is no Qualified IPO) or (b) any redemption initiated by the holders of Series A-2 Shares or Series B Shares pursuant to above, each of the holders of a majority of the then outstanding Series C Preferred Shares may request a redemption of the Preferred Shares of such series.

The price at which each Preferred Share shall be redeemed equal to 150% of its Original Issue Price, plus any dividend which have been declared (but which remain unpaid) in respect of the Preferred Shares, as adjusted for share split, share dividends, combination, recapitalizations and similar events with respect to each series.

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The Company accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of the Preferred Shares using effective interest method. Changes in the redemption value are considered to be changes in accounting estimates.

Conversion Rights

Each Preferred Share is convertible, at the option of the holder, at any time after the date of issuance of such Preferred Shares according to a conversion ratio, subject to adjustments for dilution, including but not limited to stock splits, stock dividends and capitalization and certain other events. Each Preferred Share is convertible into a number of ordinary shares determined by dividing the applicable original issuance price by the conversion price. The conversion price of each Preferred Share is the same as its original issuance price and no adjustments to conversion price have occurred. At December 31, 2016, 2017 and 2018, each Preferred Share is convertible into one ordinary share.

Each Preferred Share shall automatically be converted into ordinary shares, at the then applicable preferred share conversion price upon (i) closing of a Qualified Initial Public Offering (“Qualified IPO”) or (ii) each Series B Preferred Share shall automatically be converted into Ordinary Shares upon the affirmative written consent of the holders of 75% or more of then outstanding Series B Preferred Shares.

Voting Rights

Each Preferred Share shall be entitled to that number of votes corresponding to the number of ordinary shares on an as-converted basis. Preferred Shares shall vote together with the holders of Ordinary Shares, and not as a separate class or series with respect to certain specified matters. Otherwise, the holders of Preferred Shares and ordinary shares shall vote together as a single class.

Dividend Rights

No dividends shall be declared or paid on the Ordinary Shares, Series A Preferred Shares and the Series B Shares unless and until a dividend in like amount is paid at the same time on each outstanding Series C Preferred Share calculated on an as-converted basis.

No dividends shall be declared or paid on the Ordinary Shares and Series A Preferred Shares unless and until a dividend in like amount is paid at the same time on each outstanding Series B Preferred Share (calculated on an as-converted basis).

Liquidation Preferences

In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company, holders of the Preferred Shares shall be entitled to receive a per share amount equal to 150% of the original preferred share issue price of the respective series of Preferred Shares, as adjusted for share dividends, share splits, combinations, recapitalizations or similar events, plus all accrued and declared but unpaid dividends thereon, in the sequence of Series C Preferred Shares, Series B Preferred Shares, Series A-2 Preferred Shares and Series A-1 Preferred Shares. After such liquidation amounts have been paid in full, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed on a pro rata, pari passu basis among the holders of the Preferred Shares, on an as-converted basis, together with the holders of the ordinary shares.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The modifications of the rights, preferences and privileges of the Preferred Shares are not considered substantial, and are thus accounted for as a modification rather than an extinguishment of the Preferred Shares. Where there is a transfer of value between ordinary shareholders and Preferred Shares holders as a result of such modifications, the transfer of value is accounted for as deemed dividends, recorded as additions/reductions in accumulated deficit and reductions/additions in the Preferred Shares carrying amounts.

15. Ordinary shares and Series A-1 Convertible Preferred Shares

Ordinary shares

Upon incorporation in 2013, the Company's authorized ordinary shares were 2,000,000,000 shares with a par value of US\$0.0000001 each and issued 975,308,700 ordinary shares at par value. The number of authorized ordinary shares was increased from 2,000,000,000 to 2,275,948,587 as of December 31, 2018 after the issuance of Series A-1, A-2, B and C Preferred Shares.

Immediately prior to the completion of Company's initial public offering on November 1, 2019, its authorized share capital was changed to US\$500 divided into 5,000,000,000 shares of a par value of US\$0.0000001 each, comprising of (i) 3,380,061,942 Class A ordinary shares, (ii) 619,938,058 Class B Ordinary Shares of a par value, and (iii) 1,000,000,000 shares of such class or classes (however designated) as the board of directors may determine in accordance with the amended and restated memorandum and articles of association. 619,938,058 ordinary shares beneficially owned by the Company's founders, Yi Duan, Xi Zeng and Jiancheng Li were re-designated into Class B ordinary shares on a one-for-one basis and remaining 325,773,972 ordinary shares were re-designated into Class A ordinary shares on a one-for-one basis. All outstanding preferred shares were converted into 715,043,731 Class A ordinary shares.

Upon the completion of Company's initial public offering and exercise of the green shoes options, the Company issued 150,000,000 and 12,504,475 Class A ordinary shares at price of US\$0.52 per Class A ordinary share, respectively. The total net proceeds received were US\$71,596 (equivalent to approximately RMB498,436).

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

In respect of matters requiring the votes of shareholders, the holders of Class B ordinary shares is entitled to ten votes per share, while the holders of Class A ordinary shares entitle to one vote per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Series A-1 Convertible Preferred Shares

Series A-1 Preferred Shares are not redeemable and are convertible to Ordinary Shares at a 1-to-1 initial conversion ratio at the option of the holder at any time after the date of issuance. The liquidation preference of Series A-1 Preferred Shares is preferable to Ordinary Shares but subordinated to redeemable convertible preferred shares as disclosed in Note 14.

On November 1, 2019, all Series A-1 Convertible Preferred Shares were converted to Class A ordinary shares upon the Company's completion of IPO.

16. Share-Based Compensation

On December 21, 2018, the Group adopted the 2018 Share Incentive Plan ("2018 Plan").

Under the 2018 Plan, the Board of Directors has approved that a maximum aggregate number of shares that may be issued pursuant to all awards granted under the 2018 Plan shall be 260,454,163 shares.

All stock options granted under the 2018 Plan are not exercisable until the consummation of the Group's IPO and certain of the option granted to employees are required to render service to the Group in accordance with a stipulated service schedule under which an employee earns an entitlement to vest in 30% of his option grants at the end of each of the first two years and 40% at the end of the third year of completed service.

Prior to the completion of the IPO, the stock options granted to the employees and directors shall be forfeited upon the termination of employment of the employees and directors.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

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

	Number of shares	Weighted average exercise price US\$	Weighted average remaining contractual term	Weighted average grant date fair value US\$
Outstanding as of December 31, 2017	—	—	—	—
- Grant	175,978,312	0.0000001	5	1.38
- Forfeited	—	—	—	—
Outstanding as of December 31, 2018	175,978,312	0.0000001	4.97	1.38
- Grant to Employees	2,809,000	0.0000001	4.5	1.4
- Forfeited	(74,243,734)	0.0000001	4.3	1.38
Outstanding as of December 31, 2019	104,543,578	0.0000001	3.98	1.37
Exercisable as of December 31, 2019	66,176,296	0.0000001	3.98	1.38

In determining the grant date fair value of the Company's ordinary shares for purposes of recording share-based compensation in connection with stock options, the Group, with the assistance of an independent valuation firm, evaluated the use of three generally accepted valuation approaches: market, cost and income approaches to estimate our enterprise value. The Group considered the market and cost approaches as inappropriate for valuing the Company's ordinary shares because no exactly comparable market transaction could be found for the market valuation approach and the cost approach does not directly incorporate information about the economic benefits contributed by our business operations. Consequently, the Group relied solely on the income approach in determining the fair value of the Company's ordinary shares. This method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the Group.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The income approach involves applying discounted cash flow analysis based on the Group's projected cash flow using management's best estimate as of the valuation dates. Estimating future cash flow requires the Group to analyze projected revenue growth, gross margins, operating expense levels, effective tax rates, capital expenditures, working capital requirements, and discount rates. The Group's projected revenues were based on expected annual growth rates derived from a combination of historical experience and the general trend in this industry. The revenue and cost assumptions used are consistent with our long-term business plan and market conditions in this industry. The Group also has to make complex and subjective judgments regarding its unique business risks, its limited operating history, and future prospects at the time of grant.

Options granted to Grantees were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

	2018	2019
Expected volatility	60%	60%
Risk-free interest rate (per annum)	3.7%	2.8%
Exercise multiple	2.2	2.2
Expected dividend yield	0%	0%
Contractual term (in years)	5	5

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the expected term of the Group's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in US\$ for a term consistent with the expected term of the Group's options in effect at the option valuation date. The exercise multiple is estimated as the ratio of fair value of underlying shares over the exercise price as at the time the option is exercised, based on a consideration of empirical studies on the actual exercise behavior of employees. The expected dividend yield is zero as the Group has never declared or paid any cash dividends on its shares, and the Group does not anticipate any dividend payments in the foreseeable future. The expected term is the contract life of the option.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

For the Group's stock options granted, the completion of an IPO is considered to be a performance condition of the awards. An IPO is not considered by management to be probable until it is completed. Under ASC 718, compensation cost should be accrued if it is probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these options until the consummation of an IPO, and hence no share-based compensation expense was recognized for the year ended December 31, 2018. For the year ended December 31, 2019, the Company recognized RMB745,873 share-based compensation expenses relating to the 2018 Plan.

As of December 31, 2019, RMB150,095 of total unrecognized compensation expense related to non-vested share options is expected to be recognized over a weighted average period of approximately 1.32 years.

17. Revenue information

Revenue consists of the following:

	For the year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Base commission from transactions	1,652,032	2,034,115	3,454,957
Innovation initiatives and other value-added services	146,489	248,101	144,479
	1,798,521	2,282,216	3,599,436

As the Group generates substantially all of its revenues from customers domiciled in the PRC, no geographical segments are presented. All of the Group's long-lived assets are located in the PRC.

Innovation initiatives and other value-added services primarily consists of sales incentive income, franchise income, financial services income, loan facilitation services, parking space transaction services and revenue from other value-added services rendered to the Registered Agents and market participants.

18. Loss per share

The following table sets forth the basic and diluted net loss per share computation and provides a reconciliation of the numerator and denominator for the periods presented:

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Numerator:			
Net income (loss)	649	104,026	(510,387)
Accretion to preferred share redemption value	(228,468)	(248,186)	(116,308)
Deemed dividend to preferred shareholder	—	—	(642,174)
Numerator for basic and diluted net loss per share calculation	<u>(227,819)</u>	<u>(144,160)</u>	<u>(1,268,869)</u>
Denominator:			
Weighted average number of ordinary shares	945,712,030	945,712,030	1,087,910,999
Denominator for basic and diluted net loss per share calculation	<u>945,712,030</u>	<u>945,712,030</u>	<u>1,087,910,999</u>
Net loss per ordinary share			
—Basic and diluted	<u>(0.24)</u>	<u>(0.15)</u>	<u>(1.17)</u>

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The potentially dilutive securities that have not been included in the calculation of diluted net loss per share as their inclusion would be anti-dilutive are as follows:

	As of December 31,		
	2017	2018	2019
Series A-1 Preferred Shares	102,102,318	102,102,318	—
Redeemable Convertible Preferred Shares	612,941,413	612,941,413	—
Share options to employees	—	175,978,312	104,543,578
Share options to Series C preferred shareholder	—	—	172,908,894
Total	715,043,731	891,022,043	277,452,472

19. Commitments and Contingencies

(a) Operating lease Commitments

The Group leases its offices under non-cancelable operating lease agreements. Rental expenses under operating leases included in the Consolidated Statements of Comprehensive Income (Loss) were RMB18,564 and RMB17,878 for the years ended December 31, 2018 and 2019, respectively.

As of December 31, 2019, future minimum lease commitments under non-cancelable operating lease agreements, were as follows:

	Office and facilities RMB
2020	10,189
2021	6,190
2022	4,942
2023	4,807
2024	722
Thereafter	115
Total	26,965

(b) Capital commitment

As a limited partner of those equity method investees disclosed in note 8, the Group is committed to make further capital injection into the limited partnership in accordance with the respective partnership deeds. Such capital investment commitment amounted to RMB616,891 and RMB502,661 as of December 31, 2018 and 2019, respectively.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

20. Related Party Balance and Transactions

During the years ended December 31, 2017, 2018 and 2019, the Group had the following material related party transactions with its equity method investees and affiliates:

	For the year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Transactions with related parties			
(1) Base commission income and Sales incentive income shared with related parties under Self-Commitment and Non-Group Collaborative Agreements (see note 12(3))			
Gefei Wenqin	24,656	—	—
Gefei Chengyun	17,231	—	—
Jiushen	1,850	—	—
Jiufeng	9,999	—	—
Jiusheng	—	16,985	261
Jiuchuan	1,566	13,428	12,727
Jiuyi	—	—	10,934
Decheng	—	585	2,957
Tianye	—	3,673	8,836
Qianli	—	11,189	—
Yunde	—	—	11,622
Detong	—	—	3,538
Qixing	—	—	2,576
Jiuzhen	—	—	5,074
Deyan	—	—	15,270
	<u>55,302</u>	<u>45,860</u>	<u>73,795</u>

Under the respective Non-Group Commitment Agreements, the equity method investees above are parties under tri-party agreements pursuant to which they directly advanced the deposits to the real estate developers for the year ended December 31, 2018 and 2019.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
(2) Base commission income shared with related party under Exclusive Sales Contracts without Sales Commitment Arrangement			
Derong	—	—	11,414
	—	—	11,414
Total	55,302	45,860	85,209

During the year ended December 31, 2019, Derong entered an Exclusive Sales Contracts which is required to directly advance deposit to the real estate developers while neither the Group nor Derong is required to purchase any unsold unit of properties at the end of the exclusive sales period.

During the year ended December 31, 2019, a company owned by one of the founder's spouse, and one of the Company's equity method investment, Jiushi, pledged their real estate properties as collateral of the bank borrowings of the Group (see note 10).

As further described in note 2(s), during the year ended December 31, 2019, the Group recognized revenue of RMB28,877 related to parking space transaction facilitating services provided to Shenzhen Jinyiyun and the relevant real estate agents. Certain directors and management of the Company are principal shareholders of Shenzhen Jinyiyun.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,	
	2018 RMB	2019 RMB
Amounts due to related parties		
(1) Payables for income shared under Self-Commitment and Non-Group Collaborative Agreements (see note 12(3))		
Gefei Chengyun	11,374	10,759
Jiushen	1,263	1,263
Jiufeng	1,769	301
Jiusheng	19,912	2
Jiuchuan	13,428	11,154
Jiuyi	—	13,190
Decheng	479	3,029
Tianye	3,673	11,382
Qianli	10,581	—
Yunde	—	9,730
Detong	—	3,538
Qixing	—	2,464
Jiuzhen	—	2,348
Tianlin	—	3,219
Deyan	—	6,893
Jiushi	—	15
	62,479	79,287
(2) Payables for funds provided under Self-Commitment Collaborative Agreements (see note 12(3))		
Jiusheng	34,714	—
	34,714	—

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,	
	2018 RMB	2019 RMB
(3) Payables for Base Commission Income shared with related party under Exclusive Sales Contracts without Sales Commitment Arrangement		
Derong	—	11,414
	<u>—</u>	<u>11,414</u>
(4) Other payables		
Amount due to Jiushen	—	2,909
Amount due to Jiuyi	—	6,690
Shanghai Chongkai Enterprise Management (LLP) (“Chongkai”)	—	5,085
	<u>—</u>	<u>14,684</u>
Total	<u>97,193</u>	<u>105,385</u>

Geifei Wenqin, Jiuchuan, Jiuyi, Decheng, Tianye, Qianli, Yunde, Gefei chengyun, Jiushen, Detong, Derong, Qixing, Jiuzhen, Deyan and Jiushi are equity method investees of the Group.

Jiusheng and Jiufeng are subsidiaries of Jiushen.

Chongkai is a company owned by two of the founders and certain management of the Group.

21. Subsequent Events

The outbreak of a novel coronavirus (COVID-19) since January 2020 has disrupted commercial and economic activities in mainland China. The Group has taken measures to and has resumed operation in an orderly manner. The COVID-19 epidemic is expected to have a negative impact on the Group’s operating result and cashflow in the first quarter of 2020 but will not have a substantial impact on the Group’s ability to continue as a going concern.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

22. Parent only financial information

The following condensed parent company financial information of Fangdd Network Group Ltd., has been prepared using the same accounting policies as set out in the accompanying Consolidated Financial Statements. As of December 31, 2019, there were no material contingencies, significant provisions of long-term obligations, mandatory dividend or redemption requirements of redeemable shares or guarantees of Fangdd Network Group Ltd., except for those, which have been separately disclosed in the Consolidated Financial Statements.

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

(a) Condensed Balance Sheets

	As of December 31,	
	2018	2019
	RMB	RMB
Assets		
Current asset		
Cash and cash equivalents	36	431,029
Total current asset	36	431,029
Non-current asset		
Investments in and amounts due from subsidiaries, the VIE and VIE's subsidiaries	1,197,490	2,145,325
Total non-current asset	1,197,490	2,145,325
Total assets	1,197,526	2,576,354
Liabilities		
Current liability		
Accrued expenses and other current liabilities	20,590	29,202
Total current liability	20,590	29,202
Total liabilities	20,590	29,202
Mezzanine equity		
Series A-2 Redeemable Convertible Preferred Shares	102,743	—
Series B Redeemable Convertible Preferred Shares	446,889	—
Series C Redeemable Convertible Preferred Shares	2,193,512	—
Total mezzanine equity	2,743,144	—

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,	
	2018	2019
	RMB	RMB
(Deficit) Equity		
Ordinary shares	—	—
Class A ordinary shares	—	1
Class B ordinary shares	—	—
Series A-1 Convertible Preferred Shares	5,513	—
Additional paid-in capital	55,052	4,880,135
Accumulated other comprehensive loss	(274,540)	(368,897)
Accumulated deficit	(1,352,233)	(1,964,087)
Total (deficit) equity	(1,566,208)	2,547,152
Total liabilities, mezzanine equity and (deficit) equity	1,197,526	2,576,354

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

(b) Condensed Statements of Results of Operations

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
General and administrative expenses	(2,722)	(72)	(881)
Total operating expenses	(2,722)	(72)	(881)
Loss from operations	(2,722)	(72)	(881)
Equity income of subsidiaries and the VIE and VIE's subsidiaries	54,226	22,921	147,511
Other income:			
Interest income, net	243	(2)	(2)
Income before income tax	51,747	22,847	146,628
Income tax expense	—	—	—
Net income	51,747	22,847	146,628
Accretion of Redeemable Convertible Preferred Shares	(228,468)	(248,186)	(116,308)
Deemed dividend to preferred shareholder	—	—	(642,174)
Net loss attributable to ordinary shareholders	(176,721)	(225,339)	(611,854)

Fangdd Network Group Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

(c) Condensed statements of cash flows

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net cash (used in) provided by operating activities	(2,479)	25	(883)
Cash flows used in investing activities:			
Investments in and amounts due from subsidiaries, the VIE and VIE's subsidiaries	(660,531)	—	(64,295)
Investment in short-term investments	—	—	(380,901)
Proceeds from redemption of short-term investments	—	—	380,901
Net cash used in investing activities	(660,531)	—	(64,295)
Cash flows provided by financing activities:			
Proceeds from initial public offering, net of offering cost	—	—	498,436
Net cash provided by financing activities	—	—	498,436
Effect of exchange rate changes on cash and cash equivalents	(18,742)	1	(2,265)
Net (decrease) increase in cash and cash equivalents	(681,752)	26	430,993
Cash and cash equivalents at the beginning of the year	681,762	10	36
Cash and cash equivalents at the end of the year	10	36	431,029

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Yi Duan, certify that:

1. I have reviewed this annual report on Form 20-F of Fangdd Network Group Ltd. (the “Company”);
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)) 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) [intentionally omitted]
 - (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 12, 2020

By: /s/ Yi Duan
Name: Yi Duan
Title: Co-Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jiaorong Pan, certify that:

1. I have reviewed this annual report on Form 20-F of Fangdd Network Group Ltd. (the "Company");
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)) 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) [intentionally omitted]
 - (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 12, 2020

By: /s/ Jiaorong Pan
Name: Jiaorong Pan
Title: Chief Financial Officer
