The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountant's Report in Appendix I to this document and in particular, "Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2018, 2019 and 2020 are to the fiscal years ended December 31, 2018, 2019 and 2020, respectively.

Overview

We are the leading online destination for automobile consumers in China, ranking first among automotive service platforms in terms of mobile daily active users as of December 31, 2020 according to QuestMobile. Through our two websites, *autohome.com.cn* and *che168.com*, accessible through PCs, mobile devices, our mobile applications and mini apps, we deliver comprehensive, independent and interactive content and tools to automobile consumers as well as a full suite of services to automakers and dealers across the auto value chain.

We began in 2008 as a content-led vertical media company focusing on media services ("1.0 Media"). In 2016, we launched our "4+1" strategic transformation initiative ("2.0 Platform"), building a platform that covers "auto contents," "auto transactions," "auto financing" and "auto lifestyle" to transform and upgrade from a content-led vertical company to a data and technology-driven automotive platform. Since 2018, we have focused on developing a full suite of intelligent products and solutions with artificial intelligence ("AI"), big data and cloud technologies (collectively, "ABC") to build an integrated ecosystem that connects all participants in the auto industry by providing end-to-end data-driven products and solutions across the value chain ("3.0 Intelligence"). Going forward, we plan to continue leveraging our "software as a service" ("SaaS") capabilities together with our core AI, big data, and cloud technologies ("4.0 ABC + SaaS") to expand both horizontally and vertically.

We generate revenues from media services, leads generation services and online marketplace and others.

- Media services: Through our media services, we provide automakers with targeted-marketing solutions in connection with brand promotion, new model release and sales promotion. Our large and engaged user base of automobile consumers provides a broad reach for automakers' marketing messages.
- Leads generation services: Our leads generation services enable our dealer subscribers to create their own online stores, list pricing and promotional information, provide dealer contact information, place advertisements and manage customer relationships to help them reach a broad set of potential customers and effectively market their automobiles to consumers online and ultimately generate sales leads. Our leads generation services also include used car listing services, which provide a user interface that allows potential used car buyers to identify suitable listings and contact the relevant sellers.
- Online marketplace and others: While we continue to strengthen our media and leads generation services, we are also further developing our online marketplace and other businesses. These businesses focus on providing facilitation services for new and used car transactions and other

platform-based services for new and used car buyers and sellers. Through our auto financing business, we provide services to our cooperative financial institutions that involve facilitating the sale of their loans and insurance products to consumers and independent automobile sellers. Towards the end of 2017, we began offering data products, which leverage our intelligent big data analytics capabilities and massive pool of accumulated user data to provide end-to-end data-driven products and solutions for automakers and dealers across different stages of the value chain. We believe the breadth and depth of these products and solutions on our platform will allow us to build a robust and technology-driven automotive ecosystem that covers all aspects of the automobile ownership life cycle.

We achieved strong operating results during the Track Record Period. Our net revenues increased by 16.4% from RMB7,233.2 million in 2018 to RMB8,420.8 million in 2019 and further increased by 2.8% to RMB8,658.6 million (US$1,327.0 million) in 2020. Our net income attributable to Autohome Inc. increased by 11.5% from RMB2,871.0 million in 2018 to RMB3,200.0 million in 2019 and further increased by 6.4% to RMB3,405.2 million (US$521.9 million) in 2020.

Rule 13.46(2) of the Hong Kong Listing Rules requires an overseas issuer to send an annual report or a summary financial report within four months after the end of the financial year to which the report relates. As this document already includes the financial information of the Company for the year ended December 31, 2020, the Company will not separately prepare and send an annual report to its shareholders for the year ended December 31, 2020, which will not be in breach of its constitutional documents, laws and regulations of the Cayman Islands or other regulatory requirements. In addition, the Company will issue an announcement by April 30, 2021 that it will not separately prepare and send an annual report to its shareholders for the year ended December 31, 2020. Furthermore, pursuant to Rule 19C.11 of the Hong Kong Listing Rules, the requirements under Appendix 14 and Appendix 16 of the Hong Kong Listing Rules do not apply to the Company.

General Factors Affecting Our Results of Operations

Our business and results of operations are significantly affected by China's overall economic conditions and the general trends in the automotive industry, especially automobile sales in China and the sales and marketing budgets of automakers and dealers. Economic growth in China has contributed to an increase in household disposable income and improved the availability of financing for automobile purchases. New automobile sales in China experienced rapid growth for a sustained period of time until the first decline in annual sales starting in 2018, which trend continued through 2019 and 2020. Moreover, some local governments have different approaches and have even tightened the local regulations on automobile transactions, which may slow the growth rate of new automobile sales and decrease the demand for our services, such as the general downward trends of automobile sales and demand in 2018, 2019 and 2020. In addition, our business is subject to the overall advertising expenditures by automakers and automobile dealers, the development of online advertising industry in China and the market acceptance of online advertising and promotion. Our results of operations can also be significantly impacted by our ability to minimize costs and maximize efficiency in our operations.

In addition, our business and results of operations may be affected by our user reach, the level of user experience and engagement. Automakers and dealers, which contribute a substantial portion of our revenues, choose to advertise on our websites and mobile applications in significant part because of our leading market position in the online automotive advertising industry and the rich, diverse and customized content on our websites and mobile applications. Also, effective marketing and promotion activities we conduct are critical for us to maintain and enhance our brand recognition and attract more traffic to our platform. We anticipate that our ability to maintain a large user base while delivering superior user engagement and experience will affect our ability to attract new advertisers and dealer subscribers, which will ultimately impact our ability to generate leads and transactions. Finally, our business and results of operations may be affected by the development of e-commerce in China and consumers' acceptance of online automobile purchases.

Impact of COVID-19 on Our Operations

Our results of operations and financial condition in 2020 were affected by the spread of COVID-19. Going forward, the extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak, which are highly uncertain and unpredictable.

Especially during the early stage of the COVID-19 outbreak, the automotive industry in China was negatively impacted, as automobile production and the number of purchasers declined due to precautionary government-imposed closures of certain travel and business, the government's order to delay resumption of service and mass production and the related quarantine measures. The containment efforts led by the government also caused delay in the near-term marketing demand of our automaker and dealer customers.

Despite the impact of the COVID-19 outbreak, our net revenues increased by 2.8% from RMB8,420.8 million in 2019 to RMB8,658.6 million in 2020. As of December 31, 2020, we had cash and cash equivalents and short-term investments of RMB14,629.4 million. We believe our liquidity is sufficient for us to successfully navigate an extended period of uncertainty.

Key Income Statement Line Items and Specific Factors Affecting Our Results of Operations

While our business and results of operations are generally affected by the factors detailed above, our results of operations are more directly affected by specific financial factors such as the ones described below.

Net Revenues

We currently generate our net revenues from media services, leads generation services, online marketplace and others.

Media services mainly include automaker advertising services and regional marketing campaigns conducted by certain automobile brands' regional offices. We sell our advertising services primarily to automakers and dealers through third-party advertising agencies, with automakers contributing a substantial majority of our advertising services revenues. We offer rebates to advertising agencies who represent automakers and automobile dealers that place advertisements on our platform. Our net revenues are presented net of rebates to advertising agencies.

We generate revenues from leads generation services through dealer subscription services, advertising services sold to individual dealer advertisers and used car listing services. We sell our dealer subscription services to automobile dealers mainly on a fixed-fee subscription basis, with fee rates that depend on the length and version of the subscription, and the cities where the automobile dealers are located.

We also generate revenues from online marketplace and others, which consist of data products, the new vehicle transactions, used vehicle transactions, auto financing and others. For data products, we provide end-to-end data-driven products and solutions for automakers and dealers. For new and used car marketplace and auto financing business, we provide services such as transaction facilitation, transaction-oriented marketing solutions, sales leads, loan facilitation and insurance brokerage services. The service fees are recognized when the services are provided, sales leads are delivered or upon the completion of transaction facilitation, or upon the delivery of data reports and over the period of consumption or utilization of data-driven products and solutions by automakers and dealers. We provided direct vehicles sales services prior to the Track Record Period but substantially withdrew from such business in 2016.

The following table sets forth the principal components of our net revenues in absolute amounts and as percentages of our total net revenues for the years presented:

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Net revenues							
Media services	3,508,254	48.5	3,653,767	43.4	3,455,056	529,510	39.9
Leads generation services	2,870,996	39.7	3,275,544	38.9	3,198,832	490,242	36.9
Online marketplace and others	853,901	11.8	1,491,440	17.7	2,004,671	307,229	23.2
Total net revenues	**7,233,151**	**100.0**	**8,420,751**	**100.0**	**8,658,559**	**1,326,981**	**100.0**

Media Services Revenues

We generate media services revenues primarily from automaker advertising services and regional marketing campaigns conducted by certain automobile brands' regional offices. In 2018, 2019 and 2020, 103, 92 and 92 automakers operating in China, respectively, purchased media services from us directly or through third-party advertising agencies. The decrease in 2019 was primarily due to the overall decline in China's automobile market. We primarily use a "cost per day" pricing model to price our online advertising services by charging advertisers on a daily basis for an advertisement placed in a given location on our websites and mobile applications. As we continue to grow our user base and enhance user engagement, we have set up "cost per thousand impressions," "cost per click" and other performance-based pricing models. These initiatives have already begun to generate revenues, but the amount was relatively insignificant compared to the revenues generated from the "cost per day" pricing model.

We will continue to leverage a combination of the following to attract spending by automakers on our websites and mobile applications: (i) our ability to increase advertising volume, either due to (a) higher sell-through rates, which is calculated as the percentage of advertising locations actually sold over total advertising locations available for sale in a given period, or (b) the increased volume contribution from our mobile websites and applications; (ii) our ability to increase our pricing, as measured by price per location per day, as our user reach continues to expand, and we continue to enhance the effectiveness of the services we offer and build automakers' increasing awareness of our platform; and (iii) our ability to constantly provide more diversified and optimized portfolio of product offerings.

Leads Generation Services Revenues

We generate leads generation services revenues through (i) dealer subscription services, (ii) advertising services sold to individual dealer advertisers, and (iii) used car listing services. Our dealer subscribers are dealers that have purchased subscription packages which are delivered through our dealership information system. We provide our dealer subscribers with additional tools and features to enable them to more effectively market their inventories on our websites and mobile applications. Our used car listing services primarily consist of listing and display of used vehicles and generation of sales leads to dealers through our platform. We provided leads generation services to 28,613, 27,100 and 24,517 dealers in 2018, 2019 and 2020, respectively. The decrease in 2019 and 2020 was primarily due to the overall decline in China's automobile market. Our leads generation services revenues accounted for 39.7%, 38.9% and 36.9% of our net revenues in 2018, 2019 and 2020, respectively. We will continue to enhance our ability to (i) increase the penetration rate of high-end subscription packages; (ii) provide more diversified and upgraded value-added services to our dealer customers, leveraging our capabilities of connecting dealers with our large user base; and (iii) ultimately increase the average revenue contribution per dealer.

Online Marketplace and Others Revenues

We generate revenues from online marketplace and others through our data products, transaction platform, auto financing services, and others. Our data products leverage our intelligent big data analytics capabilities and massive pool of accumulated user data to provide end-to-end data-driven products and solutions for automakers and dealers across different stages of the value chain. For new vehicles, our transaction business currently focuses on platform-based services including facilitating transactions on the Autohome Mall and providing transaction-oriented marketing solutions and other platform-based services. For used vehicles, our transaction platform functions as a transaction system, which connects automobile buyers and used automobile sellers and facilitates their vehicle transactions on our platform through providing a wide range of auto related services, such as leads generation, user profile generation, auto financing products and valuation tools. For our auto financing business, based on users' preferences and our big data analysis, we recommend a broad range of loans and insurance products offered by our cooperative financial institutions to our users who have auto financing needs and we match them with these financial institutions to facilitate transactions. We have also introduced merchant loans offered by our cooperative financial institutions to automobile sellers. As a result of our acquisition of Shanghai Tianhe in 2017, we currently facilitate the transactions of insurance products between consumers and our cooperative insurance business partner as an insurance brokerage service provider. Our revenues from online marketplace and others accounted for 11.8%, 17.7% and 23.2% of our net revenues in 2018, 2019 and 2020, respectively. Going forward, we will explore diversified business models and opportunities to build a robust and comprehensive e-commerce platform and continue to develop our transaction system and our auto financing and data products businesses.

Cost of Revenues

Cost of revenues refers primarily to (i) content-related costs, (ii) depreciation and amortization expenses, (iii) bandwidth and internet data center ("IDC") costs and (iv) tax surcharges. The following table sets forth the principal components of our cost of revenues in absolute amounts and as a percentage of our total net revenues for the years indicated:

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Cost of revenues:							
Content-related costs[1]	441,459	6.0	633,042	7.4	720,465	110,416	8.3
Depreciation and amortization expenses	41,600	0.6	31,169	0.4	29,889	4,581	0.4
Bandwidth and IDC costs	105,313	1.5	106,146	1.3	113,858	17,450	1.3
Tax Surcharges	231,916	3.2	189,935	2.3	96,958	14,859	1.1
Total cost of revenues	**820,288**	**11.3**	**960,292**	**11.4**	**961,170**	**147,306**	**11.1**

Note:

(1) Including share-based compensation expenses of RMB16.1 million for 2018, RMB15.5 million for 2019 and RMB21.4 million (US$3.3 million) for 2020.

Content-related Costs

Content-related costs are costs directly related to creating and editing the originally-generated content, organizing and maintaining user-generated content on our websites and mobile applications, and maintaining our professionally-generated content. Content-related costs mainly include salaries and benefits, toll free telephone charges, travel and office expenses of our editorial personnel, expenses we incur in the execution of the offline portion of our advertisers' online promotions and professionally-generated content displayed on our websites and mobile applications.

Depreciation and Amortization Expenses

Depreciation expenses are related to servers and other equipment that are directly related to our revenue-generating business activities and leasehold improvements. A substantial majority of our amortization expenses relate to the amortization of intangibles including trademarks that we acquired in connection with the acquisitions of Cheerbright, China Topside and Norstar in June 2008, shortly after the inception of our company, and the insurance brokerage license obtained through our acquisition of Shanghai Tianhe.

Bandwidth and IDC Costs

Bandwidth and IDC costs consist of fees that we pay to telecommunication carriers and other service providers for telecommunication services and for hosting our servers at their internet data centers, as well as fees we pay to our content delivery network service provider for the distribution of our content.

Tax Surcharges

Our tax surcharges primarily consist of cultural development fees charged for our advertising services, construction and maintenance tax and education surcharges. Our overall tax surcharges as a percentage of our total net revenues was 3.2% in 2018, 2.3% in 2019 and 1.1% in 2020. The decrease of tax surcharges in 2019 was due to the halved fee rate of cultural development fees charged for our advertising services starting July 2019, which will last till 2024, and the decrease in 2020 was due to the exemption from cultural development fees in 2020.

Operating Expenses

Our operating expenses consist of sales and marketing expenses, general and administrative expenses and product development expenses. The following table sets forth our operating expenses in absolute amounts and as percentages of our total net revenues for the years indicated:

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentage)						
Operating expense:							
Sales and marketing expenses(1)	2,435,236	33.6	3,093,345	36.7	3,246,507	497,549	37.5
General and administrative expenses(2)	314,846	4.4	317,967	3.8	381,843	58,520	4.4
Product development expenses(3)	1,135,247	15.7	1,291,054	15.3	1,364,227	209,077	15.8
Total operating expenses	**3,885,329**	**53.7**	**4,702,366**	**55.8**	**4,992,577**	**765,146**	**57.7**

Notes:

(1) Including share-based compensation expenses of RMB61.6 million for 2018, RMB46.1 million for 2019 and RMB40.1 million (US$6.1 million) for 2020.

(2) Including share-based compensation expenses of RMB56.0 million for 2018, RMB62.9 million for 2019 and RMB55.9 million (US$8.6 million) for 2020.

(3) Including share-based compensation expenses of RMB68.6 million for 2018, RMB79.5 million for 2019 and RMB93.9 million (US$14.4 million) for 2020.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of the branding and marketing expenses incurred in connection with promoting our brands and platform through search engines, mobile platforms, navigation sites and traditional media channels, sales promotion activities and salaries and benefits and sales commissions for our sales and marketing personnel. Our sales and marketing expenses also include offline execution and business development expenses associated with the implementation of our business and office- and travel-related expenses associated with our sales and marketing activities.

General and Administrative Expenses

Our general and administrative expenses primarily consist of bad debt expenses, personnel-related expenses for management and administrative personnel and professional service fees.

Product Development Expenses

Our product development expenses primarily consist of personnel-related expenses associated with the development of new technologies and products, investment in underlying big data, AR and VR related technologies, and enhancement of our websites and mobile applications. We recognize these costs as expenses when incurred, unless they qualify for capitalization as software development costs.

Other Income, net

Our other income, net primarily consists of VAT refunds, government grants and others. The government grants primarily represent subsidies and tax refunds for operating a business in certain jurisdictions and fulfillment of specified tax payment obligations. These grants are not subject to any specific requirements and are recorded when received. Depending on the local government policies, some of the grants are not recurring in nature. The following table sets forth our other income, net in absolute amounts and as percentages of our total net revenues for the years indicated:

	For the year ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
VAT refunds	289,326	4.0	293,008	3.5	218,412	33,473	2.5
Government grants	45,190	0.6	147,694	1.8	210,022	32,187	2.4
Others	6,875	0.1	36,997	0.4	14,781	2,266	0.2
Other Income, net	**341,391**	4.7	**477,699**	5.7	**443,215**	67,926	5.1

Taxation

Cayman Islands

Autohome Inc., Autohome E-commerce Inc., Autohome Link Inc. and Autohome Financing Limited are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, companies incorporated in the Cayman Islands are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Cheerbright is a company incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands, Cheerbright is not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the British Virgin Islands.

Hong Kong

Autohome (Hong Kong) Limited, Autohome Media, Autohome E-commerce Hong Kong Limited, Autohome Link Hong Kong Limited and Autohome Financing Hong Kong Limited (deregistered in 2020) were incorporated in Hong Kong. Subsidiaries in Hong Kong are subject to 16.5% income tax on their taxable income generated from operations in Hong Kong. On April 1, 2018, a two-tiered profits tax regime was introduced. The profits tax rate for the first HK$2 million of profits of corporations is lowered to 8.25%, while profits above that amount continue to be subject to the tax rate of 16.5%. For 2018, 2019 and 2020, save for the tax payment made by Autohome Financing Hong Kong Limited in relation to our disposal of the Financing JV as its 25% shareholder, we did not make any other provisions for Hong Kong profit tax as there were no assessable profits derived from or earned in Hong Kong during these periods except for the above-mentioned investment disposal gain. Under the Hong Kong tax law, our subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

PRC

On December 29, 2018, the Standing Committee of the National People's Congress amended the PRC Enterprise Income Tax Law, which was issued on March 16, 2007. The Implementing Regulations of the Law of the PRC on Enterprise Income Tax was issued on December 6, 2007 and became effective on January 1, 2008 and was revised on April 23, 2019. Under the PRC Enterprise Income Tax Law and its implementation rules, a standard 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions.

Autohome WFOE, Chezhiying WFOE, Beijing Autohome Technologies Co., Ltd., or Beijing Autohome Technologies, Beijing Prbrownies and Beijing Kemoshijie Technology Co., Ltd. are recognized as "High-New Technology Enterprise" ("HNTE") and are eligible for a 15% preferential tax rate effective through 2021, 2020, 2020, 2020 and 2020, respectively, upon the completion of their filings with the relevant tax authorities. The qualification as an HNTE is subject to annual evaluation and a three-year review by the relevant authorities in China. Three HNTEs, Autohome WFOE, Beijing Autohome Technologies and Beijing Prbrownies, further enjoy a more preferential enterprise tax rate of 10% as they are accredited as key software enterprises ("KSE") under the relevant PRC laws and regulations as well, which tax rate will continue to apply for so long as each of them maintains their respective key software enterprise status during each relevant tax year.

Chengdu Prbrownies Software Co., Ltd., or Chengdu Prbrownies, is recognized as a software enterprise ("SE") and could be exempt from income tax for the tax year of 2017 and 2018, followed by a 50% reduction in the statutory income tax rate of 25% for the years of 2019, 2020 and 2021 provided that it maintains its status as a SE during each relevant tax year. In the meanwhile, Chengdu Prbrownies further enjoy a more preferential enterprise tax rate of 10% as it is accredited as KSE for the year of 2020.

Chezhiying WFOE, Hainan Chezhiyitong Information Technology Co., Ltd. and Tianjin Autohome Data Information Technology Co., Ltd. are recognized as SE and could be exempt from income tax for the tax year of 2019 and 2020, followed by a 50% reduction in the statutory income tax rate of 25% for the years of 2021, 2022 and 2023 provided that it maintains its status as a SE during each relevant tax year.

Pursuant to the Circular on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry jointly issued by the SAT and the MOF on April 20, 2012, and the Circular on Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries jointly issued by the MOF, the SAT, the NDRC and the MIIT on May 4, 2016, eligible software enterprises which pass annual review and filing by the relevant tax authorities can enjoy exemption of enterprise income tax for the first and second year as calculated from the profit making year or no later than December 31, 2017 if no profit is made prior to that date, and thereafter enjoy half of the statutory rate of 25% for the third through fifth year thereafter until the expiration of the preferential period. Beijing Prbrownies started to make profit since 2015, and it passed the review and filing as an eligible software enterprise by the relevant tax authorities in 2016 and 2017, which qualified it for the exemption of enterprise income tax for the tax years of 2015 and 2016. As each of Beijing Prbrownies, Autohome WFOE and Beijing Autohome Technologies, has further registered as a KSE in 2018 and 2019, it enjoyed a reduced enterprise income tax of 10% for tax year of 2017 and 2018. Going forward, if any of Autohome WFOE, Beijing Autohome Technologies and Beijing Prbrownies fails to complete the filing and registration with the relevant tax authorities, it will no longer enjoy the preferential tax rate, and the applicable enterprise income tax rate may increase to up to 15% as an HNTE if it still maintains the HNTE qualification, or up to 25% if it loses the HNTE qualification. If Chengdu Prbrownies fails to maintain its software enterprise qualification, it will automatically forfeit the respective preferential tax treatment described above.

Except for the above-mentioned entities, our remaining PRC subsidiaries and all the VIEs were subject to enterprise income tax at a rate of 25% for 2018, 2019 and 2020.

If our holding company in the Cayman Islands, Autohome Inc., were deemed to be a "PRC resident enterprise" under the Enterprise Income Tax Law, it would be subject to enterprise income tax on its global income at a rate of 25%. If a subsidiary of us established in Hong Kong were deemed to be a "PRC resident enterprise" and Autohome Inc. were not deemed to be a "PRC resident enterprise" under the Enterprise Income Tax Law, then dividends payable by such subsidiary to Autohome Inc. may become subject to 10% PRC dividend withholding tax. Under such circumstances, it is not clear whether dividends payable by our PRC subsidiaries to their respective shareholders in Hong Kong would still be subject to PRC dividend withholding tax at a rate of 5%. If such subsidiary in Hong Kong were deemed to be a "PRC resident enterprise" under the Enterprise Income Tax Law, it would be subject to enterprise income tax at a rate of 25%. See "Risk Factors—Risks Related to Doing Business in China—Our global income and the dividends that we may receive from our PRC subsidiaries, dividends distributed to our non-PRC shareholders and ADS holders, and gains recognized by such shareholders or ADS holders, may be subject to PRC taxes under the Enterprise Income Tax Law, which would have a material adverse effect on our results of operations."

Results of Operations

The following table presents our results of operations in absolute amounts and as a percentage of our total net revenues for the periods indicated.

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Net revenues							
Media services	3,508,254	48.5	3,653,767	43.4	3,455,056	529,510	39.9
Leads generation services	2,870,996	39.7	3,275,544	38.9	3,198,832	490,242	36.9
Online marketplace and others	853,901	11.8	1,491,440	17.7	2,004,671	307,229	23.2
Total net revenues	**7,233,151**	**100.0**	**8,420,751**	**100.0**	**8,658,559**	**1,326,981**	**100.0**
Cost of revenues(1)	(820,288)	(11.3)	(960,292)	(11.4)	(961,170)	(147,306)	(11.1)
Gross Profit	**6,412,863**	**88.7**	**7,460,459**	**88.6**	**7,697,389**	**1,179,675**	**88.9**
Operating expenses							
Sales and marketing expenses(1)	(2,435,236)	(33.6)	(3,093,345)	(36.7)	(3,246,507)	(497,549)	(37.5)
General and administrative expenses(1)	(314,846)	(4.4)	(317,967)	(3.8)	(381,843)	(58,520)	(4.4)
Product development expenses(1)	(1,135,247)	(15.7)	(1,291,054)	(15.3)	(1,364,227)	(209,077)	(15.8)
Total operating expenses	**(3,885,329)**	**(53.7)**	**(4,702,366)**	**(55.8)**	**(4,992,577)**	**(765,146)**	**(57.7)**
Other income, net	341,391	4.7	477,699	5.7	443,215	67,926	5.1
Operating profit	**2,868,925**	**39.7**	**3,235,792**	**38.5**	**3,148,027**	**482,455**	**36.4**
Interest income	358,811	5.0	469,971	5.6	537,389	82,358	6.2
Earnings/(loss) from equity method investments	24,702	0.3	685	0.0	(1,246)	(191)	0.0
Fair value change of other current and non-current assets	(11,017)	(0.2)	(5,442)	(0.1)	(15,658)	(2,400)	(0.2)
Income before income taxes	**3,241,421**	**44.8**	**3,701,006**	**44.0**	**3,668,512**	**562,222**	**42.4**
Income tax expense	(377,890)	(5.2)	(500,361)	(5.9)	(260,945)	(39,992)	(3.0)
Net income	**2,863,531**	**39.6**	**3,200,645**	**38.1**	**3,407,567**	**522,230**	**39.4**
Net income/(loss) attributable to non-controlling interests	7,484	0.1	(679)	0.0	(2,338)	(358)	0.0
Net income attributable to Autohome Inc.	**2,871,015**	**39.7**	**3,199,966**	**38.1**	**3,405,229**	**521,872**	**39.3**

Note:

(1) Including share-based compensation expenses as follows:

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Allocation of share-based compensation expenses							
Cost of revenues	16,112	0.2	15,508	0.2	21,372	3,276	0.2
Sales and marketing expenses	61,599	0.9	46,081	0.5	40,103	6,146	0.5
General and administrative expenses	55,992	0.8	62,884	0.7	55,868	8,562	0.6
Product development expenses	68,622	0.9	79,535	0.9	93,863	14,385	1.1
Total share-based compensation expenses	**202,325**	**2.8**	**204,008**	**2.4**	**211,206**	**32,369**	**2.4**

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Net Revenues

Our net revenues increased by 2.8% from RMB8,420.8 million in 2019 to RMB8,658.6 million (US$1,327.0 million) in 2020. This increase was primarily due to a 34.4% increase in revenues from online marketplace and others. The COVID-19 outbreak and the government-imposed restrictions in response to it (mainly during the first quarter of 2020) had a negative impact on the growth rate of our net revenues in 2020.

Media services

Our media services revenues decreased by 5.4% from RMB3,653.8 million in 2019 to RMB3,455.1 million (US$529.5 million) in 2020. This decrease was due to decreased revenue from automaker advertising services and regional marketing campaigns conducted by certain automobile brands' regional offices.

The decrease in revenues from our media services was primarily attributable to 5.4% decrease in average revenue per automaker advertiser from RMB39.7 million in 2019 to RMB37.6 million (US$5.8 million) in 2020 as many automakers experienced disruption in operation and downward adjustment of advertising budgets as a result of the COVID-19 outbreak.

Leads generation services

Leads generation services revenues decreased by 2.3% from RMB3,275.5 million in 2019 to RMB3,198.8 million (US$490.2 million) in 2020. The decrease in leads generation services revenues was mainly driven by a decrease in the number of dealer customers from 27,100 in 2019 to 24,517 in 2020, which was primarily a result of the overall decline in China's automobile sales market.

Online marketplace and others

Revenues from online marketplace and others increased by 34.4% from RMB1,491.4 million in 2019 to RMB2,004.7 million (US$307.2 million) in 2020. This increase was primarily attributable to the increased contribution from data products. Revenues from online marketplace and others in 2020 consisted of revenues related to new car and used car marketplace business, auto financing business, data products and others.

Cost of Revenues

Our cost of revenues increased by 0.1% from RMB960.3 million in 2019 to RMB961.2 million (US$147.3 million) in 2020. In addition, our cost of revenues included share-based compensation expenses, which were RMB21.4 million (US$3.3 million) in 2020, compared to RMB15.5 million in 2019.

Content-related Costs

Our content-related costs increased by 13.8% from RMB633.0 million in 2019 to RMB720.5 million (US$110.4 million) in 2020, primarily due to an increased expenditure related to content generation, acquisition and execution and expenses directly related to the execution of service contracts.

Depreciation and Amortization Expenses

Our depreciation and amortization expenses decreased slightly by 4.1% from RMB31.2 million in 2019 to RMB29.9 million (US$4.6 million) in 2020.

Bandwidth and IDC Costs

Our bandwidth and IDC costs increased by 7.3% from RMB106.1 million in 2019 to RMB113.9 million (US$17.5 million) in 2020, which was due to increased bandwidth and IDC necessary to respond to the growth of our user traffic, improve user experience and enhance our big data analytical capabilities.

Tax Surcharges

Tax surcharges decreased by 49.0% from RMB189.9 million in 2019 to RMB97.0 million (US$14.9 million) in 2020, as a result of the favorable tax policies implemented by the government in response to the COVID-19 outbreak.

Operating Expenses

Our operating expenses increased by 6.2% from RMB4,702.4 million in 2019 to RMB4,992.6 million (US$765.1 million) in 2020.

Sales and Marketing Expenses

Our sales and marketing expenses increased by 5.0% from RMB3,093.3 million in 2019 to RMB3,246.5 million (US$497.5 million) in 2020. As a percentage of net revenues, sales and marketing expenses were 37.5% in 2020, compared to 36.7% in 2019. Our sales and marketing expenses included share-based compensation expenses of RMB40.1 million (US$6.1 million) in 2020, compared to RMB46.1 million in 2019.

General and Administrative Expenses

Our general and administrative expenses increased by 20.1% from RMB318.0 million in 2019 to RMB381.8 million (US$58.5 million) in 2020. This increase was primarily due to the increase in professional service fees and bad debt provisions. As a percentage of net revenues, general and administrative expenses increased from 3.8% in 2019 to 4.4% in 2020. Our general and administrative expenses included share-based compensation expenses of RMB55.9 million (US$8.6 million) in 2020, compared to RMB62.9 million in 2019.

Product Development Expenses

Our product development expenses increased by 5.7% from RMB1,291.1 million in 2019 to RMB1,364.2 million (US$209.1 million) in 2020. As a percentage of net revenues, product development expenses were 15.8% in 2020, compared to 15.3% in 2019. Our product development expenses included share-based compensation expenses of RMB93.9 million (US$14.4 million) in 2020, compared to RMB79.5 million in 2019.

Other income, net

Our other income, net, primarily consists of VAT refund, government grants and others. Other income, net, was RMB443.2 million (US$67.9 million) in 2020, compared to RMB477.7 million in 2019.

Income before Income Taxes

Our income before income taxes was RMB3,668.5 million (US$562.2 million) in 2020, compared to RMB3,701.0 million in 2019.

Income Tax Expense

We incurred income tax expense of RMB260.9 million (US$40.0 million) in 2020, representing a 47.8% decrease compared to RMB500.4 million in 2019, primarily due to the realization of previously uncertain preferential tax rates for certain subsidiaries that were determined to be eligible for preferential tax rate in 2020.

Net Income Attributable to Autohome Inc.

As a result of the foregoing, we had net income attributable to Autohome Inc. of RMB3,405.2 million (US$521.9 million) in 2020, increased by 6.4% compared to net income attributable to Autohome Inc. of RMB3,200.0 million in 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Net Revenues

Our net revenues increased by 16.4% from RMB7,233.2 million in 2018 to RMB8,420.8 million in 2019. This increase was due to an 8.6% increase in combined revenues from media and leads generation services, and a 74.7% increase in online marketplace and others revenue.

Media services

Our media services revenues increased by 4.1% from RMB3,508.3 million in 2018 to RMB3,653.8 million in 2019. This increase was due to increased revenue from automaker advertising services and regional marketing campaigns conducted by certain automobile brands' regional offices.

The increase in revenues from our media services was primarily attributable to 16.6% increase in average revenue per automaker advertiser from RMB34.1 million in 2018 to RMB39.7 million in 2019 as automakers continued to allocate a greater portion of their advertising budgets to our online advertising and marketing channels, with increasingly diversified and optimized portfolio of products being offered.

Leads generation services

Leads generation services revenues increased by 14.1% from RMB2,871.0 million in 2018 to RMB3,275.5 million in 2019. The increase in leads generation services revenues was mainly driven by a 20.5% increase in average revenue per paying dealer from RMB100.3 thousand in 2018 to RMB120.9 thousand in 2019. We provided leads generation services to 27,100 dealers in 2019, compared to 28,613 dealers in 2018.

Online marketplace and others.

Revenues from online marketplace and others increased by 74.7% from RMB853.9 million in 2018 to RMB1,491.4 million in 2019. This increase was primarily attributable to the increased contribution from data products and auto financing business. Revenues from online marketplace and others in 2019 consisted of revenues related to new car and used car marketplace business, auto financing business, data products and others.

Cost of Revenues

Our cost of revenues increased by 17.1% from RMB820.3 million in 2018 to RMB960.3 million in 2019.

Content-related Costs

Our content-related costs increased by 43.4% from RMB441.5 million in 2018 to RMB633.0 million in 2019, primarily due to an increased expenditure related to content generation, acquisition and execution and expenses directly related to the execution of service contracts. Our content-related costs included share-based compensation expenses, which were RMB15.5 million in 2019, compared to RMB16.1 million in 2018.

Depreciation and Amortization Expenses

Our depreciation and amortization expenses were RMB31.2 million in 2019, compared to RMB41.6 million in 2018.

Bandwidth and IDC Costs

Our bandwidth and IDC costs increased slightly from RMB105.3 million in 2018 to RMB106.1 million in 2019.

Tax Surcharges

Tax surcharges decreased by 18.1% from RMB231.9 million in 2018 to RMB189.9 million in 2019, as a result of the halved fee rate of cultural development fees charged for our advertising services starting July 2019, and which will last till 2024.

Operating Expenses

Our operating expenses increased by 21.0% from RMB3,885.3 million in 2018 to RMB4,702.4 million in 2019, primarily due to increases in sales and marketing expenses and product development expenses as we continued to reinvest in future growth opportunities.

Sales and Marketing Expenses

Our sales and marketing expenses increased by 27.0% from RMB2,435.2 million in 2018 to RMB3,093.3 million in 2019. This increase was primarily due to a 41.0% increase in marketing and promotional expenses from RMB1,650.9 million in 2018 to RMB2,327.7 million in 2019, mainly in connection with the 818 Global Super Auto Show and increased offline execution to support automakers and dealers along with business development. As a percentage of net revenues, sales and marketing expenses were 36.7% in 2019, compared to 33.6% in 2018. Our sales and marketing expenses in 2019 included share-based compensation expenses of RMB46.1 million in 2019, compared to RMB61.6 million in 2018.

General and Administrative Expenses

Our general and administrative expenses were RMB318.0 million in 2019, a slight increase compared to RMB314.8 million in 2018. As a percentage of net revenues, general and administrative expenses decreased from 4.4% in 2018 to 3.8% in 2019. Our general and administrative expenses for 2019 included share-based compensation expenses of RMB62.9 million, compared to RMB56.0 million in 2018.

Product Development Expenses

Our product development expenses increased by 13.7% from RMB1,135.2 million in 2018 to RMB1,291.1 million in 2019. The increase was primarily due to an 8.3% increase in salaries and benefits (including share-based compensation expenses) for our research and development staff from RMB896.5 million in 2018 to RMB970.9 million in 2019, and increased expenditure for technical service and technology infrastructure, which is in line with our overall growth and continued reinvestment in future growth opportunities. As a percentage of net revenues, product development expenses were 15.3% in 2019, compared to 15.7% in 2018. Our product development expenses for 2019 included share-based compensation expenses of RMB79.5 million, compared to RMB68.6 million in 2018.

Other income, net

Our other income, net, primarily consists of VAT refund, government grants and others. Other income, net, was RMB477.7 million in 2019, compared to RMB341.4 million in 2018.

Income before Income Taxes

Our income before income taxes was RMB3,701.0 million in 2019, compared to RMB3,241.4 million in 2018.

Income Tax Expense

We incurred income tax expense of RMB500.4 million in 2019, representing a 32.4% increase compared to RMB377.9 million in 2018, primarily due to an increase in taxable income and accrual of withholding tax associated with our annual dividend policy.

Net Income Attributable to Autohome Inc.

As a result of the foregoing, we had net income attributable to Autohome Inc. of RMB3,200.0 million in 2019, increased by 11.5% compared to net income attributable to Autohome Inc. of RMB2,871.0 million in 2018.

Liquidity and Capital Resources

Cash Flows and Working Capital

Our principal sources of liquidity are cash generated from our operating activities and our issuance of ADSs. Our principal uses of cash for 2018, 2019 and 2020 were primarily composed of operating activities, including employee compensation, tax expenses, content-related expenditure, promotion and marketing expenses, bandwidth and IDC costs, investment in research and development, investing activities including equity and strategic investments and other capital expenditures, and payment of dividends. As of December 31, 2020, we had cash and cash equivalents, restricted cash and short-term investments altogether amounting to RMB14.6 billion (US$2.2 billion).

We believe that our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for at least the next 12 months. We may require additional cash due to unanticipated business conditions or other future developments. We may also need additional cash resources if we find and wish to pursue opportunities for investments, acquisitions, strategic cooperation or other similar actions. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or secure debt funding from financial institutions.

The following table sets forth a summary of our cash flows for the years indicated.

	For the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US$
	(in thousands)			
Net cash generated from operating activities	3,111,438	2,889,369	3,325,631	509,675
Net cash used in investing activities	(3,301,239)	(1,168,267)	(2,985,458)	(457,542)
Net cash (used in)/generated from financing activities	(543,968)	68,676	(546,967)	(83,825)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	39,151	(13,250)	(17,556)	(2,690)
Net (decrease)/increase in cash and cash equivalents and restricted cash	(694,618)	1,776,528	(224,350)	(34,382)
Cash and cash equivalents and restricted cash at beginning of year	911,588	216,970	1,993,498	305,516
Cash and cash equivalents and restricted cash at end of year	216,970	1,993,498	1,769,148	271,134

Operating Activities

Net cash generated from operating activities was RMB3,325.6 million (US$509.7 million) for 2020. The difference between the net income of RMB3,407.6 million (US$522.2 million) and the net cash generated from the operating activities of RMB3,325.6 million (US$509.7 million) was primarily due to additional cash of RMB593.6 million used for working capital, partially offset by adding back certain non-cash expense items including share-based compensation of RMB211.2 million and depreciation of RMB158.2 million. The change in working capital was in turn the result of (i) a RMB217.7 million increase in prepaid expenses and other current assets; (ii) a RMB252.9 million increase in other non-current assets, and (iii) a RMB158.3 million decrease in accrued expenses and other payables.

The increase in prepaid expenses and other current assets was primarily attributable to the increased prepaid technical service expenses and receivables from third-party payment platform. The increase in other non-current assets was primarily due to the recognition of operating lease right-of-use assets. The decrease in accrued expenses and other payables was primarily attributable to the decreased promotion expenses.

Net cash generated from operating activities was RMB2,889.4 million for 2019. The difference between the net income of RMB3,200.6 million and the net cash generated from the operating activities of RMB2,889.4 million was primarily due to additional cash of RMB892.6 million used for working capital, partially offset by adding back certain non-cash expense items including share-based compensation of RMB204.0 million, deferred income taxes of RMB145.0 million, non-cash lease expense of RMB122.4 million and depreciation of RMB106.9 million. The change in working capital was in turn the result of (i) a RMB479.5 million increase in accounts receivable, (ii) a RMB186.6 million increase in other non-current assets, and (iii) a RMB139.8 million decrease in deferred revenue.

The increase in accounts receivable was primarily due to the increase of our media services and online marketplace and others services. The increase in other non-current assets was primarily due to the recognition of operating lease right-of-use assets. Dealers in general prepay for our subscription services for the next year before the end of each year. We therefore normally record a large amount of deferred revenue as of December 31 and such deferred revenue will decrease and be recognized as our revenue as the subscription period passes. The decrease in deferred revenue was mainly attributable to the late start of dealer subscription renewal process for the year of 2020 caused by a delay in our internal process of adopting our 2020 pricing policy. Despite the delay, the majority of our dealer customers eventually renewed their subscription for the year of 2020.

Net cash generated from operating activities was RMB3,111.4 million for 2018. The difference between the net income of RMB2,863.5 million and the net cash generated from the operating activities of RMB3,111.4 million was primarily due to the adding back of certain non-cash expense items including share-based compensation of RMB202.3 million, deferred income taxes of RMB102.1 million, and depreciation of RMB90.3 million, partially offset by the additional cash of RMB81.8 million used for working capital. The change in working capital was in turn the result of (i) a RMB904.3 million increase in accounts receivable, (ii) a RMB62.8 million increase in prepaid expenses and other current assets, partially offset by (iii) a RMB807.3 million increase in accrued expenses and other payables, and (iv) a RMB101.2 million increase in deferred revenue.

The increase in accounts receivable was primarily due to the increase of our media services and online marketplace and others services. The increase in prepaid expenses and other current assets was primarily attributable to advanced payment of tax surcharges and VAT refund receivable. The increase in accrued expenses and other payables was mainly due to the increase in accrued rebates to advertising agencies in accordance with the growth of media service revenues, increase in year-end bonuses to employees during the period and marketing expenses. The increase in deferred revenue was mainly attributable to the growth of our dealer subscription services.

As of December 31, 2020, 98.5% (or RMB2,758.4 million) of our total accounts receivable at the end of 2018 and 93.2% (or RMB3,043.6 million) of our total accounts receivable at the end of 2019 were subsequently settled. Our accounts receivable turnover days, which are the average accounts receivable balances as of the beginning and the end of the period divided by total net revenues during the period and multiplied by the number of days during the period, were 118.3 days in 2018, 130.6 days in 2019 and 134.0 days in 2020. The increase in turnover days was primarily due to the decline in the automobile market as well as the impact of COVID-19.

Investing Activities

Net cash used in investing activities was RMB2,985.5 million (US$457.5 million) in 2020, which was primarily attributable to acquisition of TTP Car Inc., purchase of term deposits and adjustable-rate financial products and increased capital expenditures primarily related to the purchase of servers and software.

Net cash used in investing activities was RMB1,168.3 million in 2019, which was primarily attributable to purchase of term deposits and adjustable-rate financial products and increased capital expenditures primarily related to the purchase of servers and software.

Net cash used in investing activities was RMB3,301.2 million in 2018, which was primarily attributable to the purchase of term deposits and adjustable-rate financial products, investment in TTP in the form of convertible bond and capital expenditures primarily related to the purchase of electronic equipment, partially offset by the cash inflow from our disposal of the Financing JV.

Short-term Investments

As of December 31, 2018, 2019 and 2020, our short-term investments consist of bank deposits, adjustable-rate financial products with original maturities of greater than 3 months but less than 1 year and money market funds that are measured at fair value. The following table sets forth a breakdown of our short-term investments:

	As of December 31,			
	2018	2019	2020	
	RMB	RMB (in thousands)	RMB	US$
Term deposits	1,732,110	2,577,905	7,286,100	1,116,644
Adjustable-rate financial products	8,092,984	8,228,907	5,592,076	857,023
Money market fund	24,394	—	—	—
	9,849,488	10,806,812	12,878,176	1,973,667

The following table sets forth a movement of our short-term investments:

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB (in thousands)	RMB	US$
Opening balance	7,242,636	9,849,488	10,806,812	1,656,216
Additions	54,532,940	42,660,267	40,050,012	6,137,933
Disposals	(51,936,932)	(41,695,492)	(37,968,391)	(5,818,911)
Net unrealized interest income recognized in earning (fair value change)	65,094	46,631	37,047	5,679
Net realized interest income recognized in earning	(54,250)	(54,082)	(47,304)	(7,250)
Ending balance	9,849,488	10,806,812	12,878,176	1,973,667

Those adjustable-rate financial products were deposits with certain financial institutions with maturities of less than one year. Some of these products were principal-guaranteed with variable interest rates, while the others were not principal-guaranteed. As of December 31, 2018, 2019 and 2020, the average effective yield of our adjustable-rate financial products was 4.4% per annum, 4.0% per annum, and 4.0% per annum, respectively.

In accordance with ASC 825, Financial Instruments, for all of our short-term investments, we elected to apply the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income as interest income. We recorded interest income related to short-term investment of RMB329.8 million, RMB386.2 million and RMB454.0 million (US$69.6 million) for the years ended December 31, 2018, 2019 and 2020, respectively.

Long-term Investments

As of December 31, 2018, 2019 and 2020, our long-term investments consist of equity method investments. Investments in entities in which we can exercise significant influence and hold an investment in voting common stock or in-substance common stock (or both) of the investee but do not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC topic 323 ("ASC 323"), Investments-Equity Method and Joint Ventures. Under the equity method, we initially record its investments at cost. We subsequently adjust the carrying amount of the investments to recognize our proportionate share of each equity investee's net income or loss into earnings after the date of investments. During the Track Record Period, our significant equity method investees primarily included Hunan Mango Autohome Automobile Sales Co., Ltd. and Visionstar Information Technology (Shanghai) Co., Ltd. The carrying amount of all of the equity method investments was RMB71.0 million, RMB71.7 million and RMB70.4 million (US$10.8 million) as of December 31, 2018, 2019 and 2020 respectively. We recorded earnings from equity method investments of RMB24.7 million and RMB0.7 million for the years ended December 31, 2018 and 2019, and loss from equity method investments of RMB1.2 million (US$0.2 million) for the year ended December 31, 2020.

Financing Activities

Net cash used in financing activities in 2020 was RMB547.0 million (US$83.8 million), which was attributable to payment of dividends, partially offset by proceeds from exercise of share-based awards.

Net cash generated from financing activities in 2019 was RMB68.7 million, which was attributable to proceeds from exercise of share-based awards.

Net cash used in financing activities in 2018 was RMB544.0 million, which was attributable to payment of dividends, partially offset by proceeds from exercise of share-based awards.

Holding Company Structure

Our ability to pay dividends is primarily dependent on our receiving distributions of funds from our subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of our PRC subsidiaries.

Under PRC law, our PRC subsidiaries are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund and allocate at least 10% of their after-tax profits on an individual company basis as determined under PRC accounting standards to the general reserve, and have the right to discontinue allocations to the general reserve if such reserve has reached 50% of registered capital on an individual company basis. In addition, they are also required to make appropriations to the enterprise expansion fund and staff welfare and bonus fund at the discretion of their respective boards of directors. Our VIEs in the PRC are also subject to similar statutory reserve requirements. These reserves can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As of December 31, 2018, 2019 and 2020, our PRC subsidiaries and our VIEs had appropriated RMB75.9 million, RMB84.5 million and RMB87.8 million (US$13.5 million), respectively, of retained earnings for their statutory reserves.

As a result of these PRC laws and regulations, prior to allocations of after-tax profits to the statutory reserves, our PRC subsidiaries and VIEs are restricted in their ability to transfer a portion of their net assets to us.

Foreign exchange and other regulation in the PRC may further restrict our PRC subsidiaries and VIEs from transferring funds to us in the form of dividends, loans and advances. As of December 31, 2018, 2019 and 2020, the amounts of the net restricted assets of our PRC subsidiaries and our VIEs were RMB9,747.1 million, RMB13,311.5 million and RMB15,734.5 million (US$2,411.4 million), respectively.

Capital Expenditures

Cash outflow in connection with capital expenditures amounted to RMB113.8 million, RMB204.1 million and RMB263.9 million (US$40.4 million) in 2018, 2019 and 2020, respectively. These capital expenditures were primarily used for purchase of servers and software for our business.

Tabular Disclosures of Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2020:

	Payments Due by the Period				
	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
	(in thousands of RMB)				
Operating lease obligations[1]	120,527	104,856	1,205	—	226,588

Note:

(1) Operating lease obligations related to the lease of office space and internet data centers.

Lease cost for the years ended December 31, 2018, 2019 and 2020 were RMB100.0 million, RMB166.7 million and RMB183.7 million (US$28.2 million), respectively, with the figures in 2019 and 2020 including those related to lease of data centers.

Working Capital

We recorded net current assets of RMB8,976.5 million, RMB12,392.5 million and RMB14,178.4 million (US$2,172.9 million), respectively, as of December 31, 2018, 2019 and 2020. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US$
	(in thousands)			
Current Assets:				
Cash and cash equivalents	211,970	1,988,298	1,751,222	268,387
Short-term investments	9,849,488	10,806,812	12,878,176	1,973,667
Accounts receivable (net of allowance for doubtful accounts of RMB3,589, RMB33,989 and RMB128,199 (US$19,647) as of December 31, 2018, 2019 and 2020, respectively)	2,795,835	3,231,486	3,124,197	478,804
Amounts due from related parties, current	34,047	29,501	47,303	7,250
Prepaid expenses and other current assets	249,977	302,285	563,182	86,311
Total current assets	**13,141,317**	**16,358,382**	**18,364,080**	**2,814,419**
Current Liabilities:				
Accrued expenses and other payables	2,439,948	2,417,438	2,577,709	395,051
Advance from customers	75,017	95,636	127,235	19,500
Deferred revenue	1,510,726	1,370,953	1,315,667	201,635
Income tax payable	119,210	45,489	85,177	13,054
Amounts due to related parties	19,868	36,387	79,895	12,244
Total current liabilities (including current liabilities of consolidated VIEs without recourse to Autohome WFOE, Chezhiying WFOE or TTP WFOE of RMB276,569, RMB193,303 and RMB602,990 (US$92,412) as of December 31, 2018, 2019 and 2020, respectively)	**4,164,769**	**3,965,903**	**4,185,683**	**641,484**

For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see "—Liquidity and Capital Resources."

Taking into account cash and cash equivalents on hand, our operating cash flows, the available revolving lines of bank facilities, and the estimated **[REDACTED]** available to us from the **[REDACTED]**

[REDACTED], our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

Since December 31, 2020 and up to the date of this document, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Material Related Party Transactions

For details relating to our related party transactions, see "Related Party Transactions". Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and adjustable-rate short-term investments. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

Foreign Exchange Risk

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

Any significant appreciation or depreciation of the RMB may however materially affect the value of, and any dividends payable on, our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.1%, 2.9% and 2.5% in 2018, 2019 and 2020, respectively, and the year-over-year percent changes in the consumer price index for December 2018, 2019 and 2020 were increases of 1.9% , 4.5% and 0.2%, respectively. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of each reporting period and the reported amount of revenue and expenses during each reporting period. We evaluate these estimates and assumptions based on historical experience, knowledge and assessment of current business and other conditions and expectations that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from these estimates and assumptions.

Some of our accounting policies require higher degrees of judgment than others in their application. When reviewing our consolidated financial statements, you should consider (a) our selection of critical accounting policies, (b) the judgment and other uncertainties affecting the application of such policies and (c) the sensitivity of reported results to changes in conditions and assumptions. For further information on our significant accounting policies, see Note 2 to the Accountant's Report in Appendix I. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements as their application places significant demands on the judgment of our management. We believe the following critical accounting policies are most significant to the presentation of our financial statements and some of which may require the most difficult, subjective and complex judgments. They should be read in conjunction with our consolidated financial statements, the risks and uncertainties of which are described under "Risk Factors" and other disclosures included in this document.

Revenue Recognition and Accounts Receivable

The Group accounts for revenue in accordance with the ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606"). ASC 606 permits entities to apply one of two methods: retrospective or modified retrospective, since first adoption on January 1, 2018. ASC 606 was adopted on January 1, 2018 using the modified retrospective method. Results for the Track Record Period are presented under ASC 606. The adoption changed the presentation of value-added-tax on gross basis to net basis and there was no adjustment to the beginning retained earnings on January 1, 2018. Our revenues are derived from media services, leads generation services and online marketplace and others. Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The recognition of revenue involves certain management judgments including identification of performance obligations, stand-alone selling price for each performance obligation and estimation of variable consideration represented by sales rebates. We provide rebates to agency companies based on their cumulative annual advertising and service volume, and the timeliness of their payments, which are accounted for as variable consideration. We estimate our obligations under such agreements by applying the most likely amount method, based on an evaluation of the likelihood of the agency companies' achievement of the advertising and service volume targets and the timeliness of their payments, after taking into account the agency companies' purchase trends and history. A refund liability, included in accrued expenses and other payables, is recognized for expected sales rebates payable to agency companies in relation to advertising services provided. We recognize revenue for the amount of fees we receive from the customers, after deducting these sales rebates, and net of VAT collected from customers. We believe that there will not be significant changes to our estimates of variable consideration and update the estimate at each reporting period as actual utilization becomes available.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Media services

Media services revenues mainly include revenues from automaker advertising services and regional marketing campaigns conducted by certain automobile brands' regional offices. The majority of our online advertising service contracts involve multiple deliverables or performance obligations presented on PC and mobile platforms and in different formats, such as banner advertisements, links and logos, other media insertions and promotional activities that are delivered over different periods of time.

Revenue is allocated among these different deliverables based on their relative stand-alone selling prices. We generally determine the stand-alone selling price as the observable price of a product or service charged to customers when sold on a stand-alone basis. Advertising services are primarily delivered based on cost per day ("CPD") pricing model. For CPD advertising arrangements, revenue is recognized when the corresponding advertisements are published over the stated display period. For cost per thousand impressions ("CPM") model, revenue is recognized when the advertisements are displayed and based on the number of times that the advertisement has been displayed. For cost-per-click ("CPC") model, revenue is recognized when the user clicks on the customer-sponsored links and based on the number of clicks. For certain marketing campaigns and promotional activities services, revenue is recognized when the corresponding services have been rendered.

Leads generation services

Leads generation services primarily include revenues from (i) dealer subscription services, (ii) advertising services sold to individual dealer advertisers, and (iii) used car listing services. Under the dealer subscription services, we make available throughout the subscription period a webpage linked to our websites and mobile applications where the dealers can publish information such as the pricing of their products, locations and addresses and other related information. Usually, advanced payment is normally made for the dealer subscription services and revenue is recognized over time on a straight line basis as services are constantly provided over the subscription period. For the advertising services sold to individual dealers, revenue is recognized when the advertising is published over the stated display period. The used car listing services primarily include listing and display of used vehicles, generation of sales leads, etc. through our platform. Our used car platform acts as a user interface that allows potential used car buyers to identify listings that meet their specific requirements and contact the sellers. Our service fee is charged based on the number of displayed days, or quantity of sales leads delivered. Revenue is recognized respectively at a point in time upon the display of vehicles or the delivery of sales leads.

Online marketplace and others

Online marketplace and others revenue primarily consist of revenues related to data products, new car and used car marketplace, auto-financing business, and others. For the data products, we provide data analysis reports and data-driven products and solutions for the automakers and dealers and recognize revenue at a point in time upon the delivery of reports or over the period of the consumption or utilization of data-driven products and solutions by the automakers and dealers. For the new car and used car marketplace, and auto-financing business, we provide platform-based services including facilitation of transactions, transaction-oriented marketing solutions, generation of sales leads and facilitation of transactions as an insurance brokerage service provider. For the new car marketplace, we also act as the platform for users to review automotive-related information, purchase coupons offered by automakers for discounts and make purchases to complete the transaction. For the used car platform, we act as a used car consumer-to-business-to-consumer, or C2B2C, transaction system that facilitates the used car transaction between the sellers and buyers and charge the service fee per each sale. For the auto-financing business, we provide a platform which serves as a bridge to match users and automobile sellers that have auto financing needs with our cooperative financial institutions that offer a variety of products covering merchant loans, consumer loans, leases and insurance services. The auto-financing service fee is charged on a per sale or lead basis. The service fee is recognized at a point in time when the relevant information is displayed, marketing solution package is delivered, when the sales leads are delivered or upon the successful facilitation of transaction.

Contract Balances and Accounts Receivable

Deferred revenue is primarily related to the advanced payment related to dealer subscription services and used car listings under leads generation services. As of December 31, 2019 and 2020, there was deferred revenue of RMB1,371.0 million and RMB1,315.7 million (US$201.6 million), respectively.

The beginning balance of deferred revenue of RMB1,371.0 million (US$210.1 million) was fully recognized as revenue for the year ended December 31, 2020.

Accounts receivable are carried at net realizable value. Prior to the adoption of ASC 326, an allowance for doubtful accounts is recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging and other factors. On January 1, 2020, we adopted Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326") using the modified retrospective transition method. ASC 326 replaces the existing incurred loss impairment model with a forward-looking current expected credit loss ("CECL") methodology. We have developed a CECL model based on historical experience, the age of the accounts receivable balances, credit quality of our customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect our ability to collect from customers. The cumulative effect from the adoption as of January 1, 2020 was immaterial to the consolidated financial statements. An accounts receivable balance is written off after all collection effort has ceased.

Practical Expedients and Exemptions

We have elected to use the practical expedient to not disclose the remaining performance obligations for contracts that have durations of one year or less. We do not have significant remaining performance obligations in excess of one year. For the remaining performance obligations as of December 31, 2020, most of them are to be recognized within a year.

The revenue standard requires us to recognize an asset for the incremental costs of obtaining a contract with a customer if the benefit of those costs is expected to be longer than one year. We have determined that sales commission for sales personnel meet the requirements of capitalization. However, we apply a practical expedient to expense these costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less.

Leases

Adoption of the New Lease Accounting Standard

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases.

Further, as a clarification of the new guidance, the FASB issued several amendments and updates. We adopted the new lease guidance beginning January 1, 2019 by applying the modified retrospective method to those contracts that are not completed as of January 1, 2019, with the comparative information not being adjusted and continues to be reported under historic accounting standards. There is no impact to retained earnings at adoption.

We have elected to utilize the package of practical expedients at the time of adoption, which allows us to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification of any expired or existing leases, and (3) not reassess initial direct costs for any existing leases. We also have elected to utilize the short-term lease recognition exemption and, for those leases that qualified, we did not recognize operating lease right-of-use ("ROU") assets or operating lease liabilities. Upon the adoption of the new guidance on January 1, 2019, we recognized operating lease ROU assets of RMB184.8 million and operating lease liabilities of RMB176.4 million (including current portion of RMB121.8 million and non-current portion of RMB54.6 million). The amount of the operating lease right-of-use assets of RMB184.8 million over the operating lease liabilities of RMB176.4 million recognized on January 1, 2019 was credited to prepaid expenses and other current assets on the consolidated balance sheet as of January 1, 2019.

New Lease Accounting Policies

We determine if an arrangement is a lease and determine the classification of the lease, as either operating or finance, at commencement. We have operating leases for office buildings and data centers and has no finance leases as of December 31, 2020. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the lease payments over the lease term at commencement date.

As our leases do not provide an implicit rate, an incremental borrowing rate is used based on the information available at commencement date, to determine the present value of lease payments. The incremental borrowing rates approximate the rate we would pay to borrow in the currency of the lease payments for the weighted-average life of the lease.

The operating lease ROU assets also include any lease payments made prior to lease commencement and excludes lease incentives and initial direct costs incurred if any. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Our lease agreements contain both lease and non-lease components, which are accounted for separately based on their relative standalone price.

As of December 31, 2020, we recognized the following items related to operating lease in its consolidated balance sheet.

		As of December 31, 2020	
		RMB	US$
		(in thousands)	
	Classification in consolidated balance sheet		
Operating lease ROU assets	Other non-current assets	209,339	32,083
Operating lease liabilities, current portion	Accrued expenses and other payables	112,094	17,178
Operating lease liabilities, non-current portion	Other liabilities	90,614	13,887

Lease cost recognized in our consolidated statements of comprehensive income is summarized as follows:

		For the Year Ended December 31, 2020	
		RMB	US$
		(in thousands)	
	Classification in consolidated statements of comprehensive income		
Operating lease cost	Cost of revenues and operating expenses	117,479	18,004
Cost of other leases with terms less than one year	Cost of revenues and operating expenses	66,253	10,154

Income taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

We apply ASC 740, Accounting for Income Taxes, to account for uncertainty in income taxes. ASC 740 prescribes a recognition threshold a tax position is required to meet before being recognized in the financial statements. We have recorded unrecognized tax benefits in the other liabilities line item in the accompanying consolidated balance sheets. We have elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of "income tax expense", in the consolidated statements of comprehensive income.

Our estimated liability for unrecognized tax benefits and the related interest and penalties are periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our consolidated financial statements. Additionally, in future periods, changes in facts and circumstances, and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which they occur.

Fair Value Measurements of Financial Instruments

Our financial instruments primarily comprise of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, amounts due from related parties, prepaid expenses and other current assets excluding prepayments and staff advances, other non-current assets excluding operating lease right-of-use assets and prepayments, accrued expenses and other payables, and amounts due to related parties. The carrying values of these financial instruments excluding other non-current assets approximated their fair values due to the short-term maturity of these instruments.

ASC topic 820 ("ASC 820"), Fair Value Measurements and Disclosures, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

ASC 820 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.

The Group's warrant is the only financial asset of the Group held at fair value which is measured using unobservable inputs (level 3 fair value measurements). Our Directors, having applied the relevant valuation techniques for the warrant as disclosed in the Accountant's Report as set out in Appendix I to this document and discussed with the external valuer, are of the opinion that the estimated fair values of the warrant, are reasonable pursuant to the principles set out in the Securities and Futures Commission's Guidance note on directors' duties in the context of valuations in corporate transactions dated May 15, 2017.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs are disclosed in Note 3 and Note 10 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-2 of Appendix I to this document.

In respect of the valuation of the Company's warrant through level 3 fair value measurements, the Joint Sponsors have, among others, (i) discussed with the Company's management and the Reporting Accountant in relation to the nature of the warrant, the relevant valuation work performed by the Company and the key assumptions and parameters involved in the valuation, (ii) considered the work done by our Directors and the Reporting Accountant and reviewed the relevant convertible bond agreement, valuation reports and internal policies and procedures implemented by the Group, and (iii) considered the Accountant's Report as set out in Appendix I to this document. Based on the above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the accounting treatment in connection with such financial asset.

Intangible Assets

Intangible assets are carried at cost less accumulated amortization and any recorded impairment. Intangible assets acquired in a business combination were recognized initially at fair value at the date of acquisition. Intangible assets acquired in asset acquisitions are measured based on the cost to the acquiring entity, which generally includes transaction costs. Intangible assets with finite useful lives are amortized using a straight-line method of amortization that reflects the estimated pattern in which the economic benefits of the intangible asset are to be consumed.

Goodwill

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of an acquired business. Our goodwill at December 31, 2018 and 2019 were related to our acquisition of Cheerbright, China Topside and Norstar. Our goodwill at December 31, 2020 was also related to our acquisition of TTP. In accordance with ASC 350, Goodwill and Other Intangible Assets, recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

Goodwill is tested for impairment at the reporting unit level on an annual basis (December 31 for us) and between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. These events or circumstances include a significant change in stock prices, business environment, legal factors, financial performances, competition, or events affecting the reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The estimation of fair value of reporting unit using a discounted cash flow methodology also requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit.

Our management has determined that we represent the lowest level within the entity at which goodwill is monitored for internal management purposes. Our management evaluated the recoverability of goodwill by performing a qualitative assessment before using a two-step impairment test approach at the reporting unit level. Based on an assessment of the qualitative factors, our management determined that it is more-likely-than-not that the fair value of the reporting unit is in excess of its carrying amount. Therefore, our management concluded that it was not necessary to proceed to the two-step goodwill impairment test. As of December 31, 2018, 2019 and 2020, goodwill was RMB1.5 billion, RMB1.5 billion and RMB4.1 billion (US$624.0 million), respectively. No impairment loss was recorded for any of the years presented.

If we reorganize our reporting structure in a manner that changes the composition of one or more of its reporting units, goodwill is reassigned based on the relative fair value of each of the affected reporting units.

Share-based Compensation

Share-based awards granted to employees are accounted for under ASC 718, Compensation—Stock Compensation, which requires that share-based awards granted to employees be measured based on the grant date fair value and recognized as compensation expense over the requisite service period (which is generally the vesting period) in the consolidated statements of comprehensive income. We have elected to recognize compensation expense using the straight-line method for all share-based awards granted with service conditions that have a graded vesting schedule. For awards with performance condition and multiple service dates, if the performance conditions are all set at inception and independent for each year, each tranche should be accounted for as a separate award with its own requisite service period. Compensation cost should be recognized over the respective requisite service period separately for each separately-vesting tranche as though each tranche of the award is, in substance, a separate award.

Under ASC 718, an entity can make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. We have elected to estimate the forfeiture rate at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. We recognize compensation cost for awards with performance conditions if and when we conclude that it is probable that the performance condition will be achieved. We reassess the probability of vesting at each reporting period for awards with performance conditions and adjust compensation cost based on its probability assessment.

Forfeiture rates are estimated based on historical and future expectations of employee turnover rates and are adjusted to reflect future changes in circumstances and facts, if any. Share-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest. To the extent we revise these estimates in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods. We, with the assistance of an independent third-party valuation firm, determined the fair value of the stock options granted to employees. The binomial option pricing model was applied in determining the estimated fair value of the options granted to employees. Subsequent to the IPO, fair value of the ordinary shares is the price of our publicly traded shares.

We account for a change in any of the terms or conditions of share-based awards as a modification in accordance with ASC subtopic 718-20, Compensation-Stock Compensation: Awards Classified as Equity, whereby the incremental fair value, if any, of a modified award, is recorded as compensation cost on the date of modification for vested awards or over the remaining vesting period for unvested awards. The incremental compensation cost is the excess of the fair value of the modified award on the date of modification over the fair value of the original award immediately before the modification.

Recent Accounting Pronouncements

See Note 2 to the Accountant's Report in Appendix I to this document.

Dividend Policy

Our board of directors has complete discretion to declare dividends subject to our Memorandum and Articles of Association and certain restrictions under Cayman Islands law. In November 2017, our board of directors declared a special cash dividend of US$0.76 per ordinary share (inclusive of applicable fees payable to our depositary bank) in favor of holders of our ordinary shares as of the close of business on January 4, 2018, which special cash dividend was paid on or about January 15, 2018. On November 4, 2019, our board of directors resolved to adopt a regular dividend policy. Under this policy, we may issue recurring cash dividend every year from 2020 in an amount of approximately 20% of the net income generated in the previous fiscal year, with the exact amount to be determined by our directors based on our financial performance and cash position prior to the distribution. On February 19, 2020, our board of directors declared cash dividend of US$0.77 per ordinary share (or per ADS) in favor of holders of our Shares as of the close of business on April 15, 2020 in accordance of the dividend policy, which cash dividend was paid on or about April 22, 2020. On February 2, 2021, our board of directors declared a cash dividend of US$0.87 per ADS (or US$0.2175 per Share after reflecting the proposed 4-for-1 share split effective on February 5, 2021) for fiscal year 2020, which is expected to be paid on March 5, 2021 to shareholders of record as of the close of business on February 25, 2021 in accordance with our dividend policy.

Despite the dividend policy in place, our board of directors has the authority to decide the timing and amount of any future dividends, if any, based on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

We are a holding company incorporated under the laws of the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Risk Factors—Risks Related to Our Corporate Structure—We may rely to a significant extent on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary will then pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

No Material Adverse Change

After due and careful consideration, our Directors confirm that, up to the date of and save as disclosed in this document, there has not been any material adverse change in our financial or trading position or prospects since December 31, 2020, and there is no event since December 31, 2020 which would materially affect the information shown in the Accountant's Report in Appendix I to this document.

Listing Expenses

We expect to incur listing expenses of approximately RMB**[REDACTED]** million (HK$**[REDACTED]** million) after December 31, 2020 (assuming that the **[REDACTED]** is conducted at the indicative **[REDACTED]** per

[REDACTED] of HK$**[REDACTED]** for both Hong Kong **[REDACTED]** and **[REDACTED]** and the **[REDACTED]** is not exercised). We expect approximately RMB**[REDACTED]** million (HK$**[REDACTED]** million) of the listing expenses will be recorded as a deduction in equity directly, and approximately RMB**[REDACTED]** million (HK$**[REDACTED]** million) will be recognized as general and administrative expenses. **[REDACTED]**, and we bear [other listing expenses].

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out to illustrate the effect of the **[REDACTED]** on the audited consolidated net tangible assets attributable to our ordinary shareholders as of December 31, 2020 as if the **[REDACTED]** had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of us and our subsidiaries and VIEs had the **[REDACTED]** been completed as of December 31, 2020 or at any future dates. It is prepared based on the audited consolidated net tangible assets attributable to our ordinary shareholders as of December 31, 2020 as derived from the Accountant's Report in Appendix I to this document, and adjusted as described below.

	Audited consolidated net tangible assets attributable to ordinary shareholders of the Company as of December 31, 2020	Estimated [REDACTED] from the [REDACTED]	Unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of Autohome Inc. as of December 31, 2020	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS
	(RMB'000) (Note 1)	(RMB'000) (Note 2)	(RMB'000)	RMB (Note 3)	RMB (Note 4)	HK$ (Note 5)	HK$ (Note 5)
Based on the Maximum **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**	14,964,998	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) The audited consolidated net tangible assets attributable to ordinary shareholders of Autohome Inc. as of December 31, 2020 is derived from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets attributable to ordinary shareholders of Autohome Inc. as of December 31, 2020 of RMB17,625,734,000 as set out in Appendix I with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of Autohome Inc. of RMB2,482,605,000 and RMB178,131,000, respectively.

(2) **[REDACTED]**

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that **[REDACTED]** Shares (excluding **[REDACTED]** Shares that had been issued and reserved for the purpose of the Share Incentive Plans) were in issue assuming that the **[REDACTED]** had been completed on December 31, 2020, taking into account of the Share Re-designation and the Share Subdivision but without taking into account of any **[REDACTED]** of **[REDACTED]** upon the exercise of the **[REDACTED]**, the Shares reserved or to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time, and any issuance or repurchase of Shares and/or ADSs by Autohome Inc..

(4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents 4 Shares.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.0000 to HK$1.1982. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(6) No other adjustments have been made to reflect the dividend declared by the board of directors on February 2, 2021, any trading results or other transactions of Autohome Inc. entered into subsequent to December 31, 2020.

(7) The unaudited pro forma adjusted net tangible assets of the Group as disclosed above does not take into account the dividend of US$0.87 per ADS amounting to RMB674,463,000 declared on February 2, 2021 (assuming **[REDACTED]** ADSs are entitled to the proposed dividend). The unaudited pro forma adjusted net tangible assets per Share and per ADS would have been RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) per Share and RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) per ADS, respectively, after taking into account the declaration and payment of the dividend.