You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included in the Accountants' Report and Unaudited Condensed Consolidated Financial Statements in Appendix IA and Appendix IB to this document and discussions in "Business." This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of 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 2019, 2020 and 2021 are to the fiscal years ended December 31, 2019, 2020 and 2021, respectively.

OVERVIEW

Established in 2016, we are a Credit-Tech platform in China that provides a comprehensive suite of technology services to assist financial institutions and consumers and SMEs in the loan lifecycle, ranging from borrower acquisition, preliminary credit assessment, fund matching and post-facilitation services, with 360 Jietiao app as our primary user interface. We are dedicated to making credit services more accessible and personalized to consumers and SMEs through Credit-Tech services to financial institutions, whereby we deploy our technology solutions to help financial institutions identify the diversified needs of consumers and SMEs, effectively access prospective borrowers that are creditworthy through multi-channels, enhance credit assessment on prospective borrowers, and manage credit risks and improve collection strategies and efficiency, among others. With user insights distilled from long-term engagement with users across life and business scenarios enabled by AI and data analytics, our technology solutions empower financial institutions across different stages of the loan lifecycle, enabling them to extend the reach of services and satisfy the financing needs of consumers and SMEs, and deliver to users more accessible credit services. In turn, we derive service fees from our technology solutions to financial institutions as our primary source of revenue streams. As of June 30, 2022, we had cumulatively facilitated approximately RMB1,127.5 billion (US$168.3 billion) of loans to 25.6 million borrowers. As of the same date, we had 41.3 million users with approved credit lines, accumulatively. As of June 30, 2022, the outstanding balance of consumer loans facilitated by us reached RMB131.1 billion (US$19.6 billion). With a focus on the consumer Credit-Tech market, we have been gradually expanding our services to the SME Credit-Tech market.

Drawing on our proprietary technologies, we brought forth an intuitive digital platform enabling financial institutions to offer borrowers revolving lines of credit with flexible loan tenors, available through convenient application processes on our platform. Prospective borrowers are able to obtain a line of credit and select from our diversified loan product portfolio the one that best fits their needs typically within a few minutes after the application is submitted. In this timeframe, our system on the back-end is able to complete credit profiling and fraud detection on a given prospective borrower, matching such borrower and our financial institution partners based on their risk preferences, as well as assisting our financial institution partners in advanced credit assessment and final credit approval. For the six months ended June 30, 2022, 97% of our user profiling and evaluation is automatically completed via AI-enabled algorithms.

As a spin-off from 360 Group that began independent operations in 2016, we inherited from 360 Group genes of technology, innovation and security. We are committed to continually facilitating the digitalization of the credit industry as a technology enabler to promote financial inclusion. While we initially started to tap into the market taking credit risk in a substantial portion of loans facilitated through our platform, we have since gradually transitioned to a more technology-centric platform approach, deleveraging our business to a more healthy level and enhancing our platform's scalability. In the meantime, we continue to expand and diversify our funding sources.

We have achieved continued growth during the Track Record Period. Our total net revenue increased by 47.1% from RMB9,220 million in 2019 to RMB13,564 million in 2020, and further increased by 22.6% to RMB16,636 million in 2021. Our total net revenue increased by 11.9% from RMB7,601 million for the six months ended June 30, 2021 to RMB8,503 million (US$1,270 million) for the six months ended June 30, 2022. Furthermore, our net income increased by 39.8% from RMB2,501 million in 2019 to RMB3,496 million in 2020, and further increased by 64.9% to RMB5,765 million in 2021. Our net income decreased by 25.8% from RMB2,895 million for the six months ended June 30, 2021 to RMB2,149 million (US$321 million) for the six months ended June 30, 2022.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition are affected by the general factors driving China's economy and China's Credit-Tech industry. These factors include per capita disposable income, consumer spending, SME business activities, the emergence of new technologies and other general economic conditions in China that affect consumption and business activities in general. In addition, we are affected by government policies and regulations that address all aspects of our operations, including data security and protection, among others.

In particular, we believe our results of operations are more directly affected by the following major factors:

Ability to attract and retain borrowers

Our net revenue grew significantly during the Track Record Period primarily as a result of growth in loan facilitation volume on our platform and, for 2020, also because of the adoption of a new accounting standard, which requires gross accounting for guarantee liabilities. In fiscal years of 2019, 2020 and 2021, we facilitated RMB199.1 billion, RMB246.8

billion and RMB357.1 billion of loans, respectively. For the six months ended June 30, 2022, our total loan facilitation volume reached RMB197.1 billion (US$29.4 billion), representing an increase of 21.2% from RMB162.6 billion for the same period of 2021.

Growth in our business has been primarily driven by the expansion of our user base, as well as the increase in borrowing activities on our platform during the Track Record Period. The number of users with approved credit lines grew from 24.7 million as of December 31, 2019 to 30.9 million as of December 31, 2020, and further to 38.5 million and 41.3 million as of December 31, 2021 and June 30, 2022, respectively. We anticipate that our future growth will continue to depend on our ability to attract new users to our platform.

In addition, we believe repeat borrowings by existing borrowers are important to our future growth. As we provide our users with revolving credit lines, we use repeat borrower contribution to monitor stickiness and loyalty of our users. Repeat borrower contribution was 71.8%, 86.5% and 88.1% for the years ended December 31, 2019, 2020 and 2021, respectively. Repeat borrower contribution was 88.5% and 88.1% for the six months ended June 30, 2021 and 2022, respectively. We believe this high repeat borrower contribution is primarily due to our ability to address the credit needs of our targeted user cohort, the superior user experience on our platform and the competitiveness of loan pricing.

Ability to effectively manage risks

Our ability to effectively analyze user risk profiles impacts our ability to attract and retain prospective borrowers, as well as our ability to empower financial institution partners to receive attractive risk-adjusted returns. We have developed and deployed the Argus Engine to conduct fraud detection and credit assessment and to create personalized profiling strategy, which will scrutinize the data related to a prospective borrower in a highly automated approach and output credit scores to our Cosmic Cube Pricing Model to price each drawdown. Benefiting from the strong machine learning and analyzing capability of our Argus Engine, we can draw credit profiles of prospective borrowers and effectively prevent potential credit losses.

Beginning from the fourth quarter of 2019, the PRC regulatory authorities imposed more stringent requirements on loan collection and stepped up scrutiny of consumer finance platforms' compliance practice in this regard. We thus purposefully adjusted some of our collection methods to maintain compliance, which led to a lower 30 day collection rate in late 2019. To manage the risks associated with the relatively less effective loan collection, we adopted a more conservative approach in conducting credit assessment, user acquisition, and reserved more provision for loan products facilitated by us. In light of the industry-wide negative impact of the COVID-19 pandemic, we further implemented a prudent credit assessment strategy and enhanced our efforts in loan collection-related regulatory compliance in early 2020. Such measures enabled us to navigate through the challenging macro economic environment relatively smoothly and consistently deliver solid operating and financial results.

As a result of the strong performance of our Argus Engine and our credit assessment measures, the 90 day+ delinquency rate for all loans outstanding was approximately 1.3%, 1.5% and 1.5% as of December 31, 2019, 2020 and 2021, respectively. As of June 30, 2022, the 90 day+ delinquency rate for all loans outstanding was approximately 2.6%, primarily due to the resurgence of COVID-19 pandemic in certain cities of China which resulted in a challenging macroeconomic environment that negatively impacted borrowers' ability to repay on time, and the adjustment in our collection operations in regions that were significantly impacted by the resurgence of COVID-19. See "– Loan Performance Data" below for details of our credit profiling performance.

We intend to continue optimizing our fraud detection capabilities, improving the accuracy of our credit assessment models and enhancing our collection effectiveness through the combination of our data analytical capabilities and deepened insights into users.

Ability to maintain collaboration with quality financial institution partners and diversify funding sources

Maintaining a healthy collaboration relationship with institutional funding partners is critical to our business. Within all types of funding partners, financial institutions are currently our main funding source. In 2021 and the six months ended June 30, 2022, all loans facilitated through our platform were funded by financial institutions, including Fuzhou Microcredit. In addition, our ability to collaborate with quality financial institution partners also impacts our profitability and our ability to provide reasonably priced financing solutions to users.

We have established cooperative relationships with a wide array of financial institution partners, and are further diversifying the financial institution partner pool. The cumulative number of financial institution partners that we collaborated increased from 81 as of December 31, 2019 to 99 as of December 31, 2020 and further to 119 as of December 31, 2021. As of June 30, 2022, we have collaborated with 133 financial institutional partners, cumulatively.

Accumulatively, we had issued ABSs of RMB2.3 billion, RMB4.0 billion, RMB10.5 billion and RMB14.0 billion (US$2.1 billion) as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively, to further diversify our funding sources. The ABSs are listed and traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Ability to optimize our cost structure

Our ability to optimize our cost structure will impact future profitability. We incurred significant expenses following inception as we grew our business. In particular, we have invested significantly in user acquisition, IT infrastructure, and research and development, particularly around advanced analytics tools and models. We also adjusted our cost structure from time to time to reflect changing macro environment and our preferred risk exposure.

Continued optimization of our cost structure will depend on our ability to continue improving operational efficiency and maintaining consistent asset quality of the loan portfolios, while driving solid growth in overall scale.

IMPACT OF COVID-19 ON OUR OPERATIONS AND FINANCIAL PERFORMANCE

Since late January 2020, COVID-19 has affected China and many parts of the world. Alongside the nationwide efforts to combat the COVID-19 pandemic, we promptly adjusted our operations and took measures as well, including, among others, remote working arrangements for our employees and temporary closure of some of our premises and facilities.

The COVID-19 pandemic has adversely impacted the economy of China and the economic condition of SMEs, especially offline businesses, and to a greater or lesser extent resulted in reduced spending, especially on discretionary consumption. Downturn in the economy and previous suspension of business activities across various sectors also weighed on borrowers' ability to repay, which may lead to an increase in default of the loans facilitated through our platform. During the early stage of the COVID-19 pandemic, we experienced a temporary decrease in demand for loan products facilitated on our platform and witnessed a temporary increase in loan delinquency due to lower levels of consumption, challenging macroeconomic conditions and uncertainty about the pandemic. As a result, we booked more provisions in 2020 to cope with the deterioration of asset quality of the loan portfolios due to COVID-19 and increased allowances to ensure sufficient coverage of potential defaults on loans facilitated on our platform. In addition, we curtailed our expenses, implemented stringent cost control measures and adopted more conservative user acquisition strategies in 2020.

As COVID-19 was gradually contained in China, we have resumed normal operations and managed to deliver solid performance in asset quality of the loan portfolios and business growth in 2020 and 2021. For the six months ended June 30, 2022, regional outbreaks of COVID-19 affected the operations of many businesses in China. In compliance with relevant government measures, we implemented a remote working policy for our employees based in the Shanghai headquarters from mid-March to May of 2022. As we perform most of our daily operations via the internet, our daily operations had not been materially impacted by the temporary lockdown and travel restrictions imposed during the regional outbreaks of COVID-19 for the six months ended June 30, 2022.

Leveraging our strong credit profiling capabilities, our 90 day+ delinquency rate remained relatively low in the industry during the COVID-19 pandemic. The 90 day+ delinquency rate for all loans outstanding was approximately 1.3%, 1.5% and 1.5% as of December 2019, 2020 and 2021, respectively. As of June 30, 2022, the 90 day+ delinquency rate was approximately 2.6%, primarily due to the resurgence of COVID-19 pandemic in certain cities of China which resulted in a challenging macroeconomic environment that negatively impacted borrowers' ability to repay on time, and our adjustment in our collection operations in regions that were significantly impacted by the resurgence of COVID-19. For the six months ended June 30, 2022, the 30 day collection rate was 86%, compared to the 30 day collection rate of 91% for the six months ended June 30, 2021, mainly due to the same reason.

As the borrowers' ability to repay on time was adversely affected by COVID-19, we implemented the following adjustments in our collection operations: (i) strengthening our monitoring of publicly reported data regarding COVID-19, promptly launching precautionary measures and adjusting collection strategies on a region-by-region basis according to the level of severity of COVID-19, (ii) establishing an emergency mechanism to cope with emergency suspension of operations due to COVID-19 related restrictions or lockdowns, enhancing the facilities and personnel management required to operate remotely, and improving the management and operational efficiency while the personnels are working remotely, and (iii) implementing certain interest discount policies for those borrowers whose ability to pay was adversely impacted due to COVID-19. As of September 30, 2022, the 90 day+ delinquency rate improved to 2.3% compared to 2.6% as of June 30, 2022, mainly attributable to our continued optimization of user acquisition.

In addition, despite the continued adverse impact of COVID-19 on consumptions and the businesses of SMEs, especially offline businesses, we adopted business strategies to expand our platform services and optimize our user acquisition through innovations and the development of technologies that further improve our risk analysis capabilities. As a result, our total net revenue increased by 47.1% from RMB9,220 million in 2019 to RMB13,564 million in 2020, and further increased by 22.6% to RMB16,636 million in 2021. Our total net revenue increased by 11.9% from RMB7,601 million for the six months ended June 30, 2021 to RMB8,503 million (US$1,270 million) for the six months ended June 30, 2022.

Despite the impact of COVID-19 on our operations outlined above, we still managed to achieve continual revenue growth in each period of the Track Record Period, partly as a result of our promptness in implementing our internal policies in quick response to the regional outbreaks as well as our adoption of business strategies that focus on the expansion of platform services and optimization of user acquisition. Other than the impacts outlined above, our Directors are of the view that COVID-19 had not had a material impact on our business and financial performance up to the Latest Practicable Date. However, there is no comparable recent events that provide guidance as to the effect of the COVID-19 pandemic may have or how it will evolve. Resurgence of COVID-19 cases since 2021 caused by new variants such as Delta and Omicron in multiple cities in China, as well as across the world, may continue to impact businesses that operate in China, including ours. The long-term trajectory of COVID-19, both in terms of scope and intensity of the pandemic, in China as well as globally, together with its impact on the industry and the broader economy remain difficult to assess or predict and face significant uncertainties that will be difficult to quantify. The extent to which the COVID-19 pandemic impacts us and the Chinese economy as a whole in 2022 and beyond depends on its future developments, which are highly uncertain and unpredictable. If there is not a material recovery in the COVID-19 situation, or it further deteriorates in China or globally, our business, results of operations and financial condition could be materially and adversely affected. For more details, please refer to "Risk Factors – Risks Related to Our Business and Industry – Our operations have been impacted by the outbreak of COVID-19, which may continue and may adversely affect our financial performance."

As of June 30, 2022, we had cash and cash equivalents and restricted cash of RMB10.7 billion (US$1.6 billion). We believe that this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

LOAN PERFORMANCE DATA

We primarily monitor the cumulative performance of loans facilitated by us as of a given measurement date via 90 day+ delinquency rates, and evaluate the healthiness of loans facilitated by us in each fiscal quarter through 180 day+ vintage delinquency rates.

90 day+ delinquency rates

90 day+ delinquency rate refers to the principal balance of on- and off-balance sheet loans facilitated by our Group that are 91 to 180 calendar days past due as a percentage of the total outstanding loan balance of on- and off-balance sheet loans facilitated by our Group across our platform as of a specific date. Loans that are charged-off and loans under Intelligent Credit Engine (ICE) and other technology solutions are not included in the delinquency rate calculation. The following table provides our 90 day+ delinquency rates as of December 31, 2019, 2020, 2021 and June 30, 2022:

	90 day+ delinquency rate
December 31, 2019	1.3%
December 31, 2020	1.5%
December 31, 2021	1.5%
June 30, 2022	2.6%

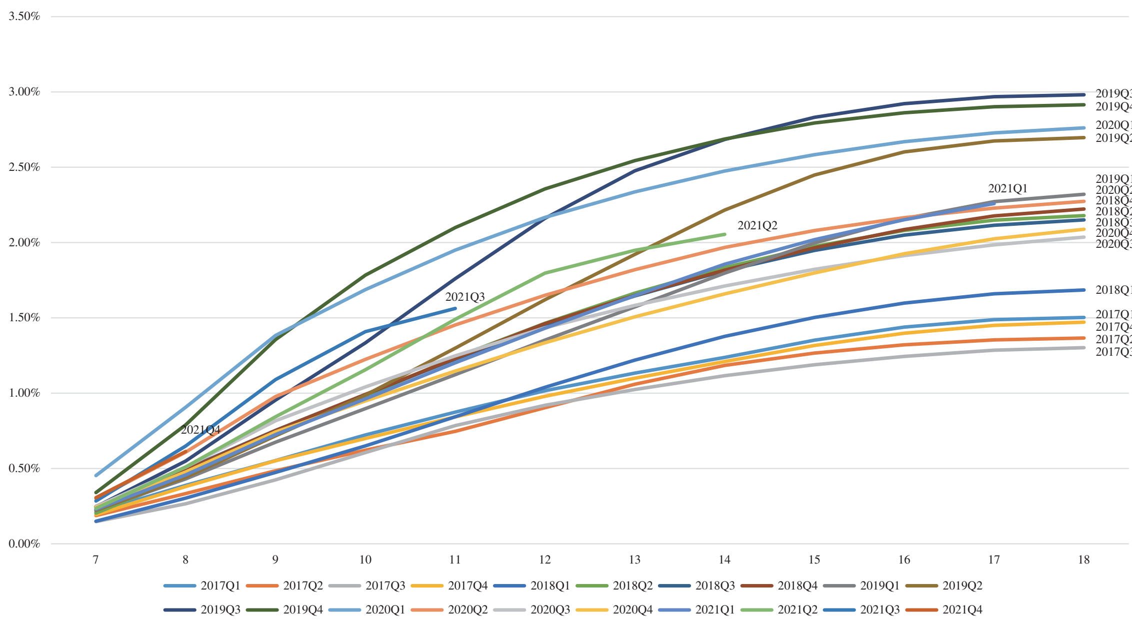
The overall 90 day+ delinquency rate increased from 1.3% as of December 31, 2019 to 1.5% as of December 31, 2020, primarily due to the significant impact of COVID-19 on the asset quality of the loan portfolios in early 2020, despite noticeable improvement in asset quality of the loan portfolios in 2020. The overall 90 day+ delinquency rate remained stable at 1.5% as of December 31, 2020 and 2021. The overall 90 day+ delinquency rate increased from 1.5% as of December 31, 2021 to 2.6% as of June 30, 2022, primarily due to the resurgence of COVID-19 pandemic in certain cities of China which resulted in a challenging macroeconomic environment that negatively impacted borrowers' ability to repay on time, and the adjustment in our collection operations in regions that were significantly impacted by the resurgence of COVID-19. The 90 day+ delinquency rate is a backward looking indicator as it reflects asset quality trend 90 days before.

180 day+ vintage delinquency rates

We refer to loans facilitated during a specified time period as a vintage, which in our case represents a given fiscal quarter, and define vintage delinquency rate as (i) the total amount of principal for all loans facilitated by our Group in a vintage that become delinquent, less the total amount of recovered past due principal for all loans facilitated by our Group in the same vintage, divided by (ii) the total initial principal amount of loans facilitated by our Group in such vintage. Loans under Intelligent Credit Engine and other technology solutions are not included in the vintage delinquency rate calculation. Our 180 day+ vintage delinquency rate data includes loans delinquent for more than 180 days.

The following chart displays the historical cumulative 180 day+ delinquency rates by vintage for all loans facilitated through our platform:

180 day+ Delinquency Rates by Vintage



Other Metrics

In addition to 90 day+ delinquency rate and 180 day+ vintage delinquency rates, presented below is the performance of loans facilitated by us measured by other metrics.

30 day+ delinquency rate

30 day+ delinquency rate refers to the principal balance of on- and off-balance sheet loans facilitated by our Group that are 31 to 180 calendar days past due as a percentage of the total outstanding loan balance of on- and off-balance sheet loans facilitated by our Group across our platform as of a specific date. Loans that are charged-off and loans under Intelligent Credit Engine (ICE) and other technology solutions are not included in the delinquency rate calculation. The following table provides our 30 day+ delinquency rates as of December 31, 2019, 2020, 2021 and June 30, 2022:

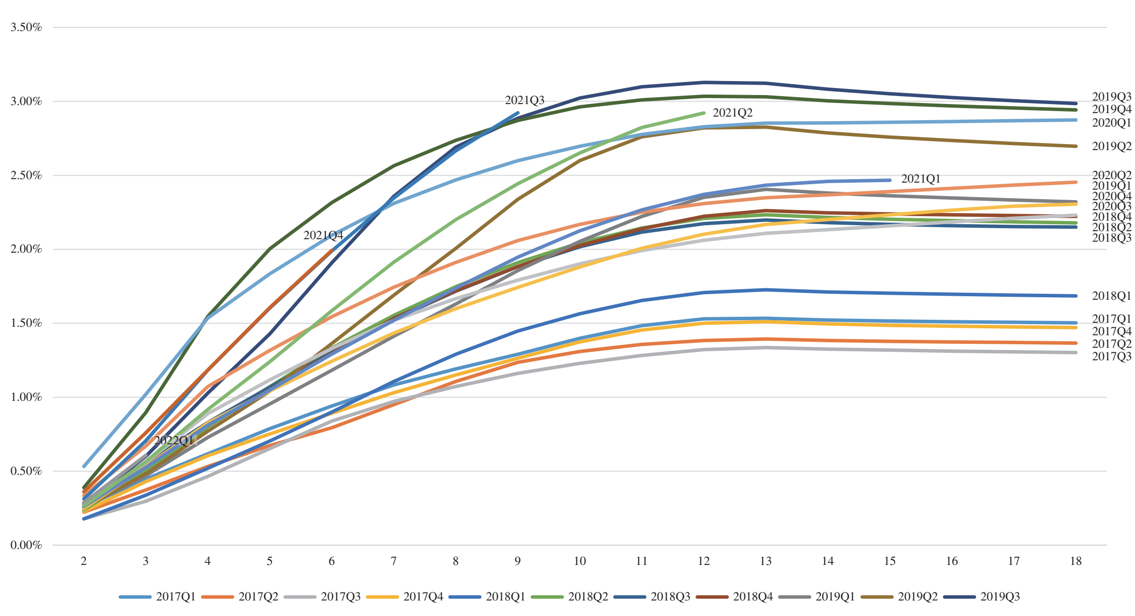
	30 day+ delinquency rate
December 31, 2019	2.8%
December 31, 2020	2.5%
December 31, 2021	3.1%
June 30, 2022	4.4%

The overall 30 day+ delinquency rate decreased from 2.8% as of December 31, 2019 to 2.5% as of December 31, 2020, primarily due to the improvement in asset quality of the loan portfolios in fiscal year 2020. The overall 30 day+ delinquency rate increased from 2.5% as of December 31, 2020 to 3.1% as of December 31, 2021, primarily due to the challenging macroeconomic environment, which negatively impacted the loan repayment. The overall 30 day+ delinquency rate increased from 3.1% as of December 31, 2021 to 4.4% as of June 30, 2022, primarily due to the resurgence of COVID-19 pandemic in certain cities of China which resulted in a challenging macroeconomic environment that negatively impacted borrowers' ability to repay on time.

30 day+ vintage delinquency rate

Our 30 day+ vintage delinquency rate data includes loans facilitated by our Group that are delinquent for more than 30 days. Loans under ICE and other technology solution are not included in the 30 day+ vintage delinquency rate calculation. The following chart displays the historical cumulative 30 day+ delinquency rates by vintage for all loans facilitated by our Group through our platform:

30 Day+ Delinquency Rates by Vintage



ON-AND OFF-BALANCE SHEET TREATMENT OF LOANS

We have established cooperative relationships with various financial institution partners. Some of our financial institution partners fund and disburse loan principal to borrowers through their own accounts, while the others choose to fund and disburse loan principal to borrowers indirectly through trusts. In addition, we fund a portion of loans facilitated on our platform through Fuzhou Microcredit, the subsidiary of our VIE that is licensed to conduct micro-lending business in China. The accounting treatment of assets, liabilities and revenues arising from the loans facilitated on our platform varies.

On-balance sheet loans

For loans disbursed indirectly through trusts per request of our financial institution partners, we have determined that we are the primary beneficiary of the majority of such trusts. We therefore consolidate these trusts and record the loans funded through these trusts, along with those directly by our own funds through Fuzhou Microcredit, on our balance sheet. On-balance sheet loans are recorded at amortized costs. Revenues from these loans are accounted as financing income, and we recorded allowance for loan loss. Services provided in connection with our on-balance sheet loans are categorized under credit-driven services.

Off-balance sheet loans

Off-balance sheet loans refer to loans funded and disbursed directly by our financial institution partners and not consolidated on our balance sheet. For a portion of off-balance sheet loans, we only provide platform services to financial institutions, and earn service fees. For the other portion, we not only provide loan facilitation and post-facilitation services but also guarantee the repayment either through the Consolidated Affiliated Entities with financing guarantee license or third-party guarantee companies or insurance companies. As a result, we incur guarantee liabilities and take credit risks. Services provided in connection with this portion of loans are categorized under credit-driven services. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the total balance of outstanding off-balance sheet loans (excluding loans delinquent for more than 180 days) facilitated under credit-driven services amounted to RMB48.7 billion, RMB54.8 billion, RMB51.4 billion and

RMB52.4 billion (US$7.8 billion), respectively. The table below sets forth details of the balance of outstanding on-balance sheet loans and off-balance sheet loans as of the dates indicated. All numbers in the table are unaudited.

	As of December 31,						As of June 30,			
	2019		2020		2021		2021		2022	
	Outstanding Loan Balance	*%*	*Outstanding Loan Balance*	*%*	*Outstanding Loan Balance*	*%*	*Outstanding Loan Balance*	*%*	*Outstanding Loan Balance*	*%*
	(RMB in millions, except for percentages)									
On-balance sheet loan	**9,394**	**13.0**	**7,893**	**8.6**	**13,349**	**9.4**	**9,917**	**8.4**	**15,501**	**10.3**
through trusts and ABSs	9,237	12.8	6,606	7.2	10,476	7.4	8,028	6.8	10,152	6.7
through Fuzhou Microcredit	158	0.2	1,287	1.4	2,873	2.0	1,889	1.6	5,348	3.6
Off-balance sheet loan	**63,119**	**87.0**	**84,182**	**91.4**	**128,639**	**90.6**	**107,643**	**91.6**	**134,989**	**89.7**
Total	**72,513**	**100.0**	**92,075**	**100.0**	**141,987**	**100.0**	**117,560**	**100.0**	**150,490**	**100.0**

We recognize revenues from an on-balance sheet loan over the lifetime of the loans using the effective interest method. In comparison, for off-balance sheet loans, a significant portion of revenues are related to loan facilitation services we provided, which are recognized when a loan is facilitated between the financial institution partner and the borrower, as well as post-facilitation services and guarantee services (if any), which are recognized over the term of the loan or the guarantee.

The outstanding loan balance of our on-balance sheet loans decreased from RMB9,394 million as of December 31, 2019 to RMB7,893 million as of December 31, 2020 as a part of our consolidated trusts expired. The outstanding loan balance of our on-balance sheet loan increased from RMB7,893 million as of December 31, 2020 to RMB13,349 million as of December 31, 2021 as funding contribution from ABS issuance and trusts increased. The outstanding loan balance of our on-balance sheet loan increased from RMB13,349 million as of December 31, 2021 to RMB15,501 million (US$2,314 million) as of June 30, 2022 primarily due to the increase in the loan facilitation volume of on-balance sheet loans.

KEY LINE ITEMS AND SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Net revenue

We generate revenue mainly from providing Credit-Tech services through matching the credit demand of unserved and underserved borrowers with credit supply from our financial institution partners. 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 periods presented:

	For the Year Ended December 31,						For the Six Months Ended June 30,				
	2019		2020		2021		2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
							(Unaudited)				
	(in thousands, except for percentages)										
Net revenue:											
Credit-driven services	**8,013,391**	**86.9**	**11,403,675**	**84.1**	**10,189,167**	**61.2**	**4,856,038**	**63.8**	**5,868,397**	**876,129**	**69.0**
Loan facilitation and servicing fees-capital heavy	6,273,131	68.0	4,596,555	33.9	2,326,027	14.0	1,265,047	16.6	1,141,771	170,462	13.4
Revenue from loan facilitation services	4,396,300	47.7	3,160,457	23.3	1,399,310	8.4	745,134	9.8	822,420	122,784	9.7
Revenue from post-facilitation services	1,876,831	20.3	1,436,098	10.6	926,717	5.6	519,913	6.8	319,351	47,678	3.7
Financing income	1,309,616	14.2	2,184,180	16.1	2,184,128	13.1	897,528	11.8	1,608,820	240,191	18.9
Revenue from releasing of guarantee liabilities	285,407	3.1	4,506,935	33.2	5,583,135	33.6	2,647,734	34.8	3,074,515	459,013	36.2
Other services fees	145,237	1.6	116,005	0.9	95,877	0.5	45,729	0.6	43,291	6,463	0.5
Platform services	**1,206,456**	**13.1**	**2,160,279**	**15.9**	**6,446,478**	**38.8**	**2,744,729**	**36.2**	**2,634,849**	**393,373**	**31.0**
Loan facilitation and servicing fees-capital light	814,581	8.8	1,826,654	13.5	5,677,941	34.2	2,392,602	31.5	2,128,955	317,845	25.1
Revenue from loan facilitation services	672,982	7.3	1,416,715	10.4	4,484,632	27.0	1,988,160	26.2	1,298,998	193,935	15.3
Revenue from post-facilitation services	141,599	1.5	409,939	3.1	1,193,309	7.2	404,442	5.3	829,957	123,909	9.8
Referral service fees	375,551	4.1	265,300	2.0	620,317	3.7	286,594	3.8	382,650	57,128	4.5
Other services fees	16,324	0.2	68,325	0.5	148,220	0.9	65,533	0.9	123,244	18,400	1.4
Total net revenue	**9,219,847**	**100.0**	**13,563,954**	**100.0**	**16,635,645**	**100.0**	**7,600,767**	**100.0**	**8,503,246**	**1,269,502**	**100.0**

We divide loans facilitated on our platform into two categories, namely credit-driven services and platform services.

In providing credit-driven services, we either fund on-balance sheet loans or provide guarantee to financial institution partners for off-balance sheet loans through the Consolidated Affiliated Entities with financing guarantee license or third-party guarantee companies or insurance companies. Consequently, we take credit risk because of the on-balance sheet lending or the guarantee arrangement. By revenue nature, revenue from facilitation and post-facilitation services for such off-balance sheet loans is recorded as loan facilitation and servicing fees-capital heavy, revenue from guarantee services provided to financial institution partners for such off-balance sheet loans is recorded as revenue from releasing of guarantee liabilities, and revenue from our on-balance sheet lending is recorded as financing income.

On the other hand, in providing platform services, we provide customized technology solutions at different stages of the loan lifecycle, such as borrower acquisition, credit assessment and post-facilitation services. Specifically, we (i) provide to financial institutions comprehensive facilitation and post-facilitation services under the capital-light model, and charge them service fees based on pre-negotiated terms, which service fees are recorded as loan facilitation and servicing fees - capital light; (ii) provide intelligent marketing services to financial institutions under ICE and earn pre-negotiated service fees, which are recorded under referral service fees; (iii) provide referral services to other online lending companies and earn referral fees, which are recorded under referral service fees; and (iv) offer financial institutions risk management SaaS and take technology service fees or consulting fees for the corresponding technology solutions elected by the financial institutions, which service fees are recorded under other services fees, and as such service was introduced in 2020, it contributed a small fraction to our total net revenue in 2020, 2021 and the six months ended June 30, 2022. We currently do not take credit risk under platform services.

Set forth below is an elaboration on the nature of each of our revenue streams.

Loan facilitation and servicing fees. We generate loan facilitation and servicing fees from financial institution partners in consideration of our facilitation and post-facilitation services for off-balance sheet loans. For each off-balance sheet loan facilitated through our platform, we charge service fees from our financial institution partners based on pre-negotiated terms. Loan facilitation and servicing fees for off-balance sheet loans under credit-driven services are recorded as loan facilitation and servicing fees – capital heavy, and loan facilitation and servicing fees for off-balance sheet loans through capital-light model under platform services are recorded as loan facilitation and servicing fees – capital light. See "– Critical Accounting Policies and Estimates – Revenue Recognition."

Financing income. We generate financing income from on-balance sheet loans, which include loans from our financial institution partners but disbursed indirectly to borrowers through our consolidated trusts, as well as loans funded by Fuzhou Microcredit.

Revenue from releasing of guarantee liabilities. We provide guarantee services to our financial institution partners on the off-balance sheet loans facilitated under the credit-driven services. Prior to 2020, guarantee liabilities were reduced by repayments and only the remaining balance at the expiry of the guarantee term was recognized as revenues from guarantee services. With the adoption of a new accounting standard in 2020, we recognized the stand-ready guarantee liabilities on a gross basis and amortize the entire amount into "revenue from releasing of guarantee liabilities" over the term of the guarantee. See "– Critical Accounting Policies and Estimates – Guarantee liabilities and financial assets receivable" for more details.

Referral service fees. We provide referral services to other platforms by referring to them the borrowers who do not fit our financial institution partners' risk preference. We also provide referral services to the financial institution partners through our ICE model, by matching borrowers and financial institution partners.

Cost and expenses

The table below sets forth our operating costs and expenses in absolute amounts and as a percentage of our total revenue for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,				
	2019		2020		2021		2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
							(Unaudited)				
	(in thousands, except for percentages)										
Operating costs and expenses:											
Facilitation, origination and servicing	1,083,372	11.8	1,600,564	11.8	2,252,157	13.5	1,035,735	13.6	1,170,561	174,760	13.8
Funding costs	344,999	3.7	595,623	4.4	337,426	2.0	162,242	2.1	227,630	33,984	2.7
Sales and marketing	2,851,519	30.9	1,079,494	8.0	2,090,374	12.6	884,946	11.6	1,167,657	174,327	13.7
General and administrative	428,189	4.6	455,952	3.4	557,295	3.4	243,774	3.2	216,148	32,270	2.5
Provision for loans receivable	486,991	5.3	698,701	5.2	965,419	5.8	381,887	5.0	907,317	135,459	10.7
Provision for financial assets receivable	166,176	1.8	312,058	2.3	243,946	1.5	103,576	1.4	164,217	24,517	1.9
Provision for accounts receivable and contract assets	230,280	2.5	237,277	1.7	324,605	2.0	157,116	2.1	117,025	17,471	1.4
Provision for contingent liabilities	–	–	4,794,127	35.3	3,078,224	18.5	1,220,586	16.1	2,162,638	322,873	25.4
Expense on guarantee liabilities	734,730	8.0	–	–	–	–	–	–	–	–	–
Total operating costs and expenses	**6,326,256**	**68.6**	**9,773,796**	**72.1**	**9,849,446**	**59.3**	**4,189,862**	**55.1**	**6,133,193**	**915,661**	**72.1**

Set forth below is an elaboration on the nature of each item of our costs and expenses.

Facilitation, origination and servicing. Facilitation, origination and servicing expenses represent the costs incurred to facilitate, originate and service loans through our platform, including both off-balance sheet loans where we earn loan facilitation service fees and post-facilitation service fees, as well as on-balance sheet loans where we earn financing income.

It mainly includes (i) salary and benefit expenses for personnel working in facilitation and post-facilitation servicing functions, (ii) credit search expenses, (iii) collection expenses, (iv) payment transaction expenses and (v) expenses related to communications with users.

As a general trend, expenses related to credit search, collection, and payment transaction all change in proportion to the change of loan facilitation volume or the number of loan applications on our platform; expenses related to communications with users were primarily driven by the number of users with approved credit lines.

Funding costs. Funding costs consist of interest expenses that we pay to financial institutions of our consolidated trusts and the investors of our asset backed securities, as well as costs relating to the set-up and operation of our consolidated trusts.

Sales and marketing. Sales and marketing expenses include advertising and marketing related expenses to promote our brands and attract users to our platform, as well as salary and benefit expenses related to our sales and marketing personnel.

Advertising and marketing related expenses, particularly those used to attract users to our platform, are largely a discretionary cost item. It is adjusted in light of our overall growth strategy and prediction of the overall credit environment in the market based on our judgment on our credit assessment ability, and funding capacity from our financial institution partners. We consider it as an investment for future business growth.

General and administrative. General and administrative expenses consist of payroll and related expenses for employees engaged in general corporate functions, professional services, costs associated with the use of facilities and equipment, such as rental and other general corporate related expenses.

Expense on guarantee liabilities. Before the adoption of ASC 326 on January 1, 2020, we evaluated and adjusted the probable loss in excess of stand-ready guarantee liabilities related to our guarantee services due to the re-measurement of the expected default rates of the underlying outstanding off-balance sheet loans. We incur expenses on guarantee liabilities only if we believe the previous evaluation of the liabilities is not sufficient based on the situation at the time we record such expenses, whereas we do not reduce our guarantee liabilities if we believe our previous evaluation is sufficient or more than our current estimate of the guarantee liabilities.

Share-based compensation. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we granted options and restricted shares to our employees to reward their historical contribution to our development. Share-based compensation expenses are non-cash in nature. Share-based compensation expenses were allocated to our expense items for the periods indicated as follows:

	For the Year Ended December 31,						For the Six Months Ended June 30,				
	2019		2020		2021		2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
							(Unaudited)				
	(in thousands, except for percentages)										
Facilitation, origination and servicing	55,601	22.2	72,192	24.0	75,209	29.6	30,893	24.4	34,704	5,181	35.1
Sales and marketing expenses	6,805	2.7	8,164	2.7	12,340	4.9	5,565	4.4	525	78	0.5
General and administrative expenses	188,022	75.1	220,805	73.3	166,373	65.5	90,373	71.3	63,604	9,496	64.4
Total	**250,428**	**100.0**	**301,161**	**100.0**	**253,922**	**100.0**	**126,831**	**100.0**	**98,833**	**14,755**	**100.0**

Provisions

We record the below four types of provisions related to loan products facilitated by us. Provision for loan receivables relates to loans on our balance sheet, provision for accounts receivable and contract assets relates to our facilitation services for our off-balance sheet loans, and provision for financial assets receivable and provision for contingent liabilities relate to guarantee services for our off-balance sheet loans under credit-driven services.

Provision for loans receivable. We evaluate the creditworthiness and collectability of loans on our balance sheet on a pooled basis. The provision for loans receivable is an assessment performed on a portfolio basis and factors such as delinquency rate, size, and other risk characteristics of the portfolio.

Provision for financial assets receivable. We recognize financial assets receivable at the inception of the off-balance sheet loans facilitated through our platform if we provide guarantee of repayments to our financial institution partners. We recognize financial assets receivable equal to the stand-ready guarantee liabilities recorded at fair value and consider what premium would be required by us to issue the same guarantee service in a standalone arm's length transaction. The financial assets receivable is accounted for as a financial asset, and reduced upon the receipt of the service fee payment from our financial institution partners.

At each reporting date, we estimate the future cash flows and assesses whether there is any indicator of impairment. If the carrying amount of the financial assets receivable exceeds the expected cash to be received, an impairment loss is recorded for the financial assets receivable that is not recoverable.

Provision for accounts receivable and contract assets. We recognize accounts receivable and contract assets after we complete our facilitation services to financial institution partners for the off-balance sheet loans. We establish an allowance for uncollectible accounts receivable and contract assets based on estimates, which incorporate historical experience and other factors surrounding the credit risk of specific types of borrowers, which is essentially the expected net default rate used in determining the fair value of guarantee liabilities. We evaluate and adjust our allowance for uncollectible accounts receivable and contract assets on a quarterly basis or more often as necessary.

Provision for contingent liabilities. We recognize a contingent guarantee liability with an allowance for credit losses under the current expected credit loss model, or the CECL model, at the inception of the guarantee due to our adoption of ASC 326, Financial Instruments-Credit Losses. See "– Critical Accounting Policies and Estimates – Guarantee liabilities and financial assets receivable" for details. The contingent guarantee is reduced by payouts made by us to compensate the financial institution partners upon borrowers' default. We evaluate and adjust allowance for credit losses on a quarterly basis or more often as necessary.

TAXATION

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty.

There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 16.5%. No Hong Kong profit tax has been levied as we did not have an assessable profit that was earned in or derived from the Hong Kong subsidiary during the Track Record Period. Hong Kong does not impose a withholding tax on dividends.

China

Generally, our PRC subsidiaries, variable interest entities and their subsidiaries, which are considered PRC resident enterprises under PRC tax law, are subject to enterprise income tax on their worldwide taxable income as determined under PRC tax laws and accounting standards at a rate of 25%.

The consolidated trusts are subject to VAT at the rate of 3%, while our other entities are subject to VAT at the rate of 6% as general taxpayers, and related surcharges on revenue generated from providing services. The EIT Law and its implementation rules permit certain "high and new technology enterprises strongly supported by the state" that hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the Implementation Rules and other regulations, to enjoy a reduced 15% enterprise income tax rate. The STA, the Ministry of Science and Technology and the MOF jointly issued the Administrative Measures on the Recognition for High and New Technology Enterprise (《高新技術企業認定管理辦法》) delineating the specific criteria and procedures for the "high and new technology enterprises" certification in April 2008, which was amended in January 2016. Shanghai Qiyu was accredited as a "high and new technology enterprises" in 2018, which was renewed in 2021. Therefore it was entitled to a reduced 15% enterprise income tax rate from 2018 to 2023. In November 2020, our WFOE obtained "high and new technology enterprises" status and was entitled to a reduced enterprise income tax rate of 15% from 2020 to 2022. In August 2019, Beihai Qicheng Information & Technology Co., Ltd. benefited from a preferential tax rate of 15% as its operation falls within the encouraged industries catalogue in western China. The 40% of the enterprise income tax payables of the subsidiary could be further reduced as it is located in an autonomous region of China. In 2021, two of our subsidiaries benefited from a preferential tax rate of 15% as they were registered in Hainan and engaged in encouraged business activities. In 2022, Beihai Borui Credit Service Co., Ltd. benefits from a preferential tax rate of 15% as its operation falls within the encouraged industries catalogue in western China.

Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income with respect to Taxes on Income and Capital (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. See "Risk Factors – Risks Related to Doing Business in China – We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business."

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Risk Factors – Risks Related to Doing Business in China – If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

Since we currently have sufficient cash at 360 DigiTech, Inc. to pay dividends, we maintain our position to reinvest undistributed profits earned from our subsidiaries and VIEs in our operations in China. Once the cash held by 360 DigiTech, Inc. is insufficient to pay dividend or we need to fund our cash demand through earnings repatriated from PRC subsidiaries and VIEs, deferred tax liabilities of undistributed earnings to be repatriated will be recognized as Chinese withholding taxes will be levied on cash dividend through earnings by PRC subsidiaries.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amounts and as a percentage of our total net revenue for the periods presented. This information should be read together with our consolidated financial statements and related notes included in the Accountants' Report in Appendix IA to this document. Period-to-period comparisons of historical results of operations should not be relied upon as indicative of future performance.

	For the Year Ended December 31,						For the Six Months Ended June 30,				
	2019		2020		2021		2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
							(Unaudited)				
	(in thousands, except for percentages)										
Net revenue											
Credit-driven services	**8,013,391**	**86.9**	**11,403,675**	**84.1**	**10,189,167**	**61.2**	**4,856,038**	**63.8**	**5,868,397**	**876,129**	**69.0**
Loan facilitation and servicing fees-capital heavy	6,273,131	68.0	4,596,555	33.9	2,326,027	14.0	1,265,047	16.6	1,141,771	170,462	13.4
Financing income	1,309,616	14.2	2,184,180	16.1	2,184,128	13.1	897,528	11.8	1,608,820	240,191	18.9
Revenue from releasing of guarantee liabilities	285,407	3.1	4,506,935	33.2	5,583,135	33.6	2,647,734	34.8	3,074,515	459,013	36.2
Other services fees	145,237	1.6	116,005	0.9	95,877	0.5	45,729	0.6	43,291	6,463	0.5
Platform services	**1,206,456**	**13.1**	**2,160,279**	**15.9**	**6,446,478**	**38.8**	**2,744,729**	**36.2**	**2,634,849**	**393,373**	**31.0**
Loan facilitation and servicing fees-capital light	814,581	8.8	1,826,654	13.5	5,677,941	34.2	2,392,602	31.5	2,128,955	317,845	25.1
Referral services fees	375,551	4.1	265,300	2.0	620,317	3.7	286,594	3.8	382,650	57,128	4.5
Other services fees	16,324	0.2	68,325	0.5	148,220	0.9	65,533	0.9	123,244	18,400	1.4
Total net revenue	**9,219,847**	**100.0**	**13,563,954**	**100.0**	**16,635,645**	**100.0**	**7,600,767**	**100.0**	**8,503,246**	**1,269,502**	**100.0**

	For the Year Ended December 31,						For the Six Months Ended June 30,				
	2019		2020		2021		2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
							(Unaudited)				
	(in thousands, except for percentages)										
Operating costs and expenses[(1)]											
Facilitation, origination and servicing	1,083,372	11.8	1,600,564	11.8	2,252,157	13.5	1,035,735	13.6	1,170,561	174,760	13.8
Funding costs	344,999	3.7	595,623	4.4	337,426	2.0	162,242	2.1	227,630	33,984	2.7
Sales and marketing	2,851,519	30.9	1,079,494	8.0	2,090,374	12.6	884,946	11.6	1,167,657	174,327	13.7
General and administrative	428,189	4.6	455,952	3.4	557,295	3.4	243,774	3.2	216,148	32,270	2.5
Provision for loans receivable	486,991	5.3	698,701	5.2	965,419	5.8	381,887	5.0	907,317	135,459	10.7
Provision for financial assets receivable	166,176	1.8	312,058	2.3	243,946	1.5	103,576	1.4	164,217	24,517	1.9
Provision for accounts receivable and contract assets	230,280	2.5	237,277	1.7	324,605	2.0	157,116	2.1	117,025	17,471	1.4
Provision for contingent liabilities	–	–	4,794,127	35.3	3,078,224	18.5	1,220,586	16.1	2,162,638	322,873	25.4
Expense on guarantee liabilities	734,730	8.0	–	–	–	–	–	–	–	–	–
Total operating costs and expenses	**6,326,256**	**68.6**	**9,773,796**	**72.1**	**9,849,446**	**59.3**	**4,189,862**	**55.1**	**6,133,193**	**915,661**	**72.1**
Income from operations	**2,893,591**	**31.4**	**3,790,158**	**27.9**	**6,786,199**	**40.7**	**3,410,905**	**44.9**	**2,370,053**	**353,841**	**27.9**
Interest (expense) income, net	(41,707)	(0.5)	77,169	0.6	126,256	0.8	82,875	1.1	68,188	10,180	0.8
Foreign exchange (loss) gain	(24,875)	(0.3)	101,534	0.7	35,549	0.2	13,895	0.2	(86,658)	(12,938)	(1.0)
Investment income (loss)	–	–	–	–	10,115	0.1	–	0.0	(8,996)	(1,343)	(0.1)
Other income, net	140,278	1.5	112,884	0.8	64,590	0.4	50,811	0.7	203,458	30,375	2.4
Income before income tax expense	2,967,287	32.2	4,081,745	30.1	7,022,709	42.2	3,558,486	46.9	2,546,045	380,115	30.0
Income tax expense	(465,983)	(5.1)	(586,036)	(4.3)	(1,258,196)	(7.6)	(663,357)	(8.7)	(396,732)	(59,231)	(4.7)
Net income	**2,501,304**	**27.1**	**3,495,709**	**25.8**	**5,764,513**	**34.6**	**2,895,129**	**38.2**	**2,149,313**	**320,884**	**25.3**
Net loss (income) attributable to non-controlling interests	291	0.0	897	0.0	17,212	0.1	(42)	0.0	10,024	1,497	0.1
Net income attributable to ordinary shareholders of the Company	**2,501,595**	**27.1**	**3,496,606**	**25.8**	**5,781,725**	**34.7**	**2,895,087**	**38.1**	**2,159,337**	**322,381**	**25.4**

Note:

(1) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2019	**2020**	**2021**	**2021**	**2022**	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
				(Unaudited)		
	(in thousands)					
Facilitation, origination and servicing	55,601	72,192	75,209	30,893	34,704	5,181
Sales and marketing expenses	6,805	8,164	12,340	5,565	525	78
General and administrative expenses	188,022	220,805	166,373	90,373	63,604	9,496
Total	**250,428**	**301,161**	**253,922**	**126,831**	**98,833**	**14,755**

Share-based compensation expenses are non-cash in nature.

NON-GAAP FINANCIAL MEASURES

To supplement our financial results presented in accordance with U.S. GAAP, we use adjusted income from operations (non-GAAP financial measure) and adjusted net income (non-GAAP financial measure) in evaluating our operating results and for financial and operational decision-making purposes. We believe that adjusted income from operations (non-GAAP financial measure) and adjusted net income (non-GAAP financial measure) help identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in results based on U.S. GAAP, and provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

We define adjusted income from operations (non-GAAP financial measure) as income from operation excluding share-based compensation expenses which are non-cash in nature. We define adjusted net income (non-GAAP financial measure) as net income excluding share-based compensation expenses which are non-cash in nature.

However, these non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. The non-GAAP financial measures have limitations as analytical tools. Our non-GAAP financial information should be considered in addition to results prepared in accordance with U.S. GAAP, but should not be considered a substitute for or superior to U.S. GAAP results. In addition, our calculation of non-GAAP financial information may be different from the calculation used by other companies, and therefore comparability may be limited.

The following table reconciles our adjusted income from operations (non-GAAP financial measure) and adjusted net income (non-GAAP financial measure) for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is income from operations and net income, respectively:

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2019	2020	2021	2021	2022	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
				(Unaudited)		
	(in thousands)					
Reconciliation of income from operations and net income to adjusted income from operations (non-GAAP financial measure) and adjusted net income (non-GAAP financial measure):						
Income from operations	2,893,591	3,790,158	6,786,199	3,410,905	2,370,053	353,841
Add: Share-based compensation expenses	250,428	301,161	253,922	126,831	98,833	14,755
Adjusted income from operations (non-GAAP financial measure)	**3,144,019**	**4,091,319**	**7,040,121**	**3,537,736**	**2,468,886**	**368,596**
Net income	2,501,304	3,495,709	5,764,513	2,895,129	2,149,313	320,884
Add: Share-based compensation expenses	250,428	301,161	253,922	126,831	98,833	14,755
Adjusted net income (non-GAAP financial measure)	**2,751,732**	**3,796,870**	**6,018,435**	**3,021,960**	**2,248,146**	**335,639**

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Net revenue

Our total net revenue increased by 11.9% from RMB7,601 million for the six months ended June 30, 2021 to RMB8,503 million (US$1,270 million) for the same period of 2022, primarily due to the growth of our Credit-Tech business. Within our total revenue, the amount derived from credit-driven services increased by 20.8% from RMB4,856 million for the six months ended June 30, 2021 to RMB5,868 million (US$876 million) for the same period of 2022, and the amount derived from platform services decreased by 4.0% from RMB2,745 million for the six months ended June 30, 2021 to RMB2,635 million (US$393 million) for the same period of 2022.

- *Loan facilitation and servicing fees.* Loan facilitation and servicing fees decreased under the credit-driven services from RMB1,265 million for the six months ended June 30, 2021 to RMB1,142 million (US$170 million) for the same period of 2022, primarily due to lower average interest rates of the off-balance sheet loans under credit-driven services. Loan facilitation and servicing fees decreased under the platform services from RMB2,393 million for the six months ended June 30, 2021 to RMB2,129 million (US$318 million) for the same period of 2022, primarily due to lower loan facilitation volume and lower average prices through the capital-light model under our platform services.

- *Financing income.* Financing income increased from RMB898 million for the six months ended June 30, 2021 to RMB1,609 million (US$240 million) for the same period of 2022, primarily due to the increase in outstanding on-balance sheet loan balance.

- *Revenue from releasing of guarantee liabilities.* Revenue from releasing of guarantee liabilities increased from RMB2,648 million for the six months ended June 30, 2021 to RMB3,075 million (US$459 million) for the same period of 2022. This increase was in line with the increase in average outstanding balance of off-balance sheet loans under credit-driven services during the period.

- *Referral services fees.* Referral services fees increased from RMB287 million for the six months ended June 30, 2021 to RMB383 million (US$57 million) for the same period of 2022 primarily due to the growth in facilitation volume through Intelligent Credit Engine (ICE), and partially offset by decrease in transaction volume for referral services.

Operating costs and expenses

Operating costs and expenses increased from RMB4,190 million for the six months ended June 30, 2021 to RMB6,133 million (US$916 million) for the same period of 2022, primarily due to the increase in provision for loans receivable and the increase in provision for contingent liabilities.

- *Facilitation, origination and servicing*. Facilitation, origination and servicing costs increased from RMB1,036 million for the six months ended June 30, 2021 to RMB1,171 million (US$175 million) for the same period of 2022, primarily due to the increase of collection fee of RMB88 million (US$13 million) and payment transaction cost of RMB58 million (US$9 million) as a result of the growth in loan facilitation volume and balance.

- *Sales and marketing*. Sales and marketing expenses increased substantially from RMB885 million for the six months ended June 30, 2021 to RMB1,168 million (US$174 million) for the same period of 2022, primarily due to a more proactive customer acquisition strategy focusing on higher quality users.

- *General and administrative*. General and administrative expenses decreased from RMB244 million for the six months ended June 30, 2021 to RMB216 million (US$32 million) for the same period of 2022, primarily due to lower professional service fees and our continued effort to improve operational efficiency.

- *Funding cost*s. Funding costs increased from RMB162 million for the six months ended June 30, 2021 to RMB228 million (US$34 million) for the same period of 2022, mainly due to an increase in funding from ABSs and trusts.

- *Provision for loans receivable*. Provision for loans receivable increased from RMB382 million for the six months ended June 30, 2021 to RMB907 million (US$135 million) for the same period of 2022, which was primarily due to the growth in on-balance sheet loans and reflected our consistent approach in assessing provisions commensurate with the underlying loan profile.

- *Provision for financial assets receivable*. Provision for financial assets receivable increased from RMB104 million for the six months ended June 30, 2021 to RMB164 million (US$25 million) for the same period of 2022. The increase was primarily attributable to an increase in facilitation volume of off-balance sheet loans under credit-driven services and reflected our consistent approach in assessing provisions commensurate with the underlying loan profile.

- *Provision for accounts receivable and contract assets*. Provision for accounts receivable and contract assets decreased from RMB157 million for the six months ended June 30, 2021 to RMB117 million (US$17 million) for the same period of 2022, primarily attributable to the decrease in loan facilitation volume under capital-light model.

- *Provision for contingent liabilities*. Provision for contingent liabilities increased from RMB1,221 million for the six months ended June 30, 2021 to RMB2,163 million (US$323 million) for the same period of 2022, which was mainly due to an increase in facilitation volume of off-balance sheet loans under credit-driven services and reflected our consistent approach in assessing provisions commensurate with the underlying loan profile.

- *Expense on guarantee liabilities*. Expenses on guarantee liabilities was nil and nil for the six months ended June 30, 2021 and 2022.

Interest income, net

Interest income, net was RMB68 million (US$10 million) for the six months ended June 30, 2022, compared to RMB83 million for the same period of 2021, mainly due to the increase in interest on short term loans.

Other income, net

Other income increased from RMB51 million for the six months ended June 30, 2021 to RMB203 million (US$30 million) for the same period of 2022, mainly due to the increase of government grants.

Income tax expense

Income tax expense was RMB397 million (US$59 million) for the six months ended June 30, 2022, compared to RMB663 million for the same period of 2021. Excluding share-based compensation expense which is not tax deductible in China, the effective tax rate was 15.0% for the six months ended June 30, 2022, compared to 18.0% for the same period of 2021.

Net income

Net income was RMB2,149 million (US$321 million) for the six months ended June 30, 2022, compared to RMB2,895 million for the same period of 2021.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Net revenue

Our revenue increased by 22.6% from RMB13,564 million in 2020 to RMB16,636 million in 2021 as a result of the rapid expansion of our Credit-Tech business, especially our platform services. Within our total revenue, the amount derived from credit-driven services decreased by 10.7% from RMB11,404 million in 2020 to RMB10,189 million in 2021, and the amount derived from platform services increased by 198.4% from RMB2,160 million in 2020 to RMB6,446 million in 2021.

- *Loan facilitation and servicing fees.* Loan facilitation and servicing fees decreased under the credit-driven services from RMB4,597 million in 2020 to RMB2,326 million in 2021. The decrease was primarily due to lower average interest rates of the loan and a decrease in facilitation volume under the capital heavy model. The decrease in loan facilitation volume under the capital heavy model was primarily attributable to the fact that we transitioned to a more technology-centric platform service approach, deleveraging our business and enhancing our platform's scalability, which resulted in a decrease in the volume off-balance sheet loans for which we provided guarantees. Loan facilitation and servicing fees increased under the platform services from RMB1,827 million in 2020 to RMB5,678 million in

2021. The increase was primarily due to the growth in loan facilitation volume through the capital-light model under our platform services. In 2021, loans facilitated under the capital-light model accounted for approximately 50.0% of our total loan facilitation volume, an increase from 26.1% in 2020. The increase in the loan facilitation volume was primarily driven by the increase in the number of users with approved credit lines on our platform from approximately 30.9 million as of December 31, 2020 to approximately 38.5 million as of December 31, 2021, as well as the increase in borrowing activities on our platform from 2020 to 2021.

- *Financing income.* Financing income remained stable at RMB2,184 million in 2021 and 2020. Contributions from increases in on-balance loans were largely offset by lower average interest rates.

- *Revenue from releasing of guarantee liabilities.* Revenue from releasing of guarantee liabilities increased from RMB4,507 million in 2020 to RMB5,583 million in 2021. This increase was in line with the increase in average outstanding balance of off-balance sheet loans under credit-driven services during the period.

- *Referral services fees.* Referral services fees increased from RMB265 million in 2020 to RMB620 million in 2021 primarily due to the growth in loan facilitation volume through ICE.

Operating costs and expenses

Operating costs and expenses increased from RMB9,774 million for 2020 to RMB9,849 million for 2021 primarily due to the increase in facilitation, origination and servicing and the increase in sales and marketing.

Facilitation, origination and servicing. Facilitation, origination and servicing costs increased from RMB1,601 million in 2020 to RMB2,252 million in 2021, primarily due to (i) salary and benefit expenses of RMB250 million as a result of headcount increases, and (ii) payment transaction costs of RMB172 million, collection fees of RMB70 million and credit search fees of RMB45 million as a result of the growth in loan facilitation volume.

Sales and marketing. Sales and marketing expenses increased substantially from RMB1,079 million in 2020 to RMB2,090 million in 2021, primarily attributable to an increase of RMB944 million in advertising and marketing-related expenses as a result of a more proactive user acquisition strategy, particularly related to acquiring users with demand for high credit limits.

General and administrative. General and administrative expenses increased from RMB456 million in 2020 to RMB557 million in 2021, primarily due to expanded business operations, partially offset by our continued efforts to improve operational efficiency.

Funding costs. Funding costs decreased from RMB596 million in 2020 to RMB337 million in 2021. The decrease of funding costs was mainly due to increased funding contribution from ABSs which has lower funding costs compared to trusts.

Provision for loans receivable. Provision for loans receivable increased from RMB699 million in 2020 to RMB965 million in 2021, primarily due to the growth in outstanding on-balance sheet loans.

Provision for financial assets receivable. Provision for financial assets receivable decreased from RMB312 million in 2020 to RMB244 million in 2021. The decrease was primarily attributable to a decrease in the facilitation volume of off-balance sheet loans under credit-driven services.

Provision for accounts receivable and contract assets. Provision for accounts receivable and contract assets increased from RMB237 million in 2020 to RMB325 million in 2021. The increase was primarily due to the growth in total facilitation volume of off-balance sheet loans.

Provision for contingent liability. Provision for contingent liability was RMB3,078 million in 2021, compared to RMB4,794 million in 2020. The decline was due to a decrease in the facilitation volume of off-balance sheet loans under credit-driven services and the fact that loans facilitated in the second and third quarters of 2021 performed better than expected.

Expense on guarantee liabilities. Expenses on guarantee liabilities was nil in 2020 and 2021.

Interest income (expense)

Interest income was RMB126 million in 2021, compared to interest expense of RMB77 million in 2020, mainly because of the increase in net interest earned from bank deposits.

Other income, net

Other income decreased from RMB113 million in 2020 to RMB65 million in 2021, mainly due to the decrease of government grants.

Income tax expense

Income tax expense was RMB1,258 million in 2021, compared to RMB586 million in 2020.

Net income

Net income was RMB5,765 million in 2021, compared to a net income of RMB3,496 million in 2020.

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

Net revenue

Our revenue increased by 47.1% from RMB9,220 million in 2019 to RMB13,564 million in 2020 as the result of the rapid expansion of our Credit-Tech business. Within our total revenue, the amount derived from credit-driven services increased by 42.3% from RMB8,013 million in 2019 to RMB11,404 million in 2020, and the amount derived from platform services grew even faster by 79% from RMB1,206 million in 2019 to RMB2,160 million in 2020.

- *Loan facilitation and servicing fees*. Loan facilitation and servicing fees decreased under the credit-driven services from RMB6,273 million in 2019 to RMB4,597 million in 2020. The decrease was primarily due to lower average interest rates of the loans, a decrease in facilitation volume of off-balance loans under credit-driven services, and the impact from early repayment since late 2019. Loan facilitation and servicing fees increased under the platform services from RMB815 million in 2019 to RMB1,827 million in 2020. The increase was primarily due to the growth in loan facilitation volume through the capital-light model under platform services. In 2020, loans under the capital-light model accounted for 26.1% of total loan facilitation volume, an increase from 13.7% in 2019. The increase in the loan facilitation volume was primarily driven by the increase in the number of users with approved credit lines on our platform from approximately 24.7 million as of December 31, 2019 to approximately 30.9 million as of December 31, 2020, as well as the increase in borrowing activities on our platform from 2019 to 2020.

- *Financing income.* Financing income increased from RMB1,310 million in 2019 to RMB2,184 million in 2020. The increase of financing income was mainly due to the increase in on-balance sheet loans.

- *Revenue from releasing of guarantee liabilities.* Revenue from releasing of guarantee liabilities increased from RMB285 million in 2019 to RMB4,507 million in 2020. This increase was primarily attributable to the change of accounting standards at the beginning of 2020.

- *Referral services fees.* Referral services fees decreased from RMB376 million in 2019 to RMB265 million in 2020 primarily due to a decrease in the volume of referral services, partially offset by a larger contribution from ICE in late 2020.

Operating costs and expenses

Operating costs and expenses increased from RMB6,326 million for 2019 to RMB9,774 million for 2020 primarily due to the increase in provision for contingent liability and the increase in facilitation, origination and servicing.

Facilitation, origination and servicing. Facilitation, origination and servicing costs increased from RMB1,083 million in 2019 to RMB1,601 million in 2020, primarily due to (i) salary and benefit expenses of RMB184 million as a result of headcount increases, and (ii) collection fees of RMB257 million as we proactively expanded our collection operations early in 2020.

Sales and marketing. Sales and marketing expenses decreased substantially from RMB2,852 million in 2019 to RMB1,079 million in 2020, primarily attributable to a decrease of RMB1,866 million in advertising and marketing-related expenses as a result of a more conservative user acquisition strategy and more effective user acquisition operations.

General and administrative. General and administrative expenses increased from RMB428 million in 2019 to RMB456 million in 2020 primarily due to an increase of RMB33 million in share-based compensation expenses, partially offset by our continued efforts to improve operational efficiency.

Funding costs. Funding costs increased significantly from RMB345 million in 2019 to RMB596 million in 2020. The increase of funding costs was mainly due to the growth in on-balance sheet loans funded by ABSs and the trusts.

Provision for loans receivable. Provision for loans receivable increased from RMB487 million in 2019 to RMB699 million in 2020 primarily due to the growth in the facilitation volume of on-balance sheet loans.

Provision for financial assets receivable. Provision for financial assets receivable increased from RMB166 million in 2019 to RMB312 million in 2020. The increase was primarily attributable to higher projected default rates in 2020 due to COVID-19 impacts early in the year.

Provision for accounts receivable and contract assets. Provision for accounts receivable and contract assets increased from RMB230 million in 2019 to RMB237 million in 2020. The increase was primarily attributable to the growth in loan facilitation volume under the capital-light model, partially offset by improving asset quality of the loan portfolios.

Provision for contingent liability. Provision for contingent liability was RMB4,794 million, compared to nil in 2019. The change resulted from the new accounting standards that took effect in 2020.

Expense on guarantee liabilities. Expenses on guarantee liabilities was RMB735 million in 2019, compared to nil in 2020, as a result of the new accounting standards that took effect in 2020.

Interest income (expense)

Interest income was RMB77 million in 2020, compared to interest expense of RMB42 million in 2019, mainly because of the increase in net interest earned from bank deposits.

Other income, net

Other income increased from RMB140 million in 2019 to RMB113 million in 2020, mainly due to the decrease of government grants.

Income tax expense

Income tax expense was RMB586 million in 2020, compared to RMB466 million in 2019.

Net income

Net income was RMB3,496 million in 2020, compared to a net income of RMB2,501 million in 2019.

WORKING CAPITAL AND DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets forth our current assets and current liabilities as of the dates indicated, which should be read together with our consolidated financial statements and related notes included in Appendix IA and Appendix IB to this document. In connection with the financial data as of September 30, 2022 in this section, translations of RMB into U.S. dollars were made at a rate of RMB7.1135 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System as of September 30, 2022.

	As of December 31,			As of June 30,		As of September 30,	
	2019	2020	2021	2022	2022	2022	2022
	RMB	*RMB*	*RMB*	*RMB*	*US$*	*RMB*	*US$*
						(Unaudited)	
				(in thousands)			
Current assets:							
Cash and cash equivalents	2,108,123	4,418,416	6,116,360	6,965,238	1,039,883	7,219,700	1,014,929
Restricted cash	1,727,727	2,355,850	2,643,587	3,764,988	562,098	3,009,630	423,087
Short term investments	–	–	–	–	–	30,000	4,217
Security deposit prepaid to third-party guarantee companies	932,983	915,144	874,886	698,478	104,280	549,548	77,254
Funds receivable from third-party payment service providers	118,860	131,464	153,151	312,447	46,647	983,851	138,308
Accounts receivable and contract assets, net	2,332,364	2,394,528	3,097,254	3,499,385	522,444	3,109,128	437,074
Financial assets receivable, net	1,912,554	3,565,482	3,806,243	3,618,560	540,237	3,321,117	466,875
Amounts due from related parties	478,767	193,305	837,324	733,386	109,492	518,001	72,819
Loans receivable, net	9,239,565	7,500,629	9,844,481	10,850,458	1,619,931	14,002,507	1,968,441
Prepaid expenses and other assets	652,545	401,224	383,937	364,908	54,479	534,340	75,116
Total current assets	**19,503,488**	**21,876,042**	**27,757,223**	**30,807,848**	**4,599,491**	**33,277,822**	**4,678,120**
Current liabilities:							
Payable to investors of the consolidated trusts-current	4,423,717	3,117,634	2,304,518	5,224,973	780,068	6,173,089	867,799
Accrued expenses and other current liabilities	720,918	809,761	2,258,329	2,117,357	316,113	2,267,693	318,787
Amounts due to related parties	55,622	71,562	214,057	178,687	26,677	203,324	28,583
Short term loans	200,000	186,800	397,576	611,164	91,244	639,764	89,937
Guarantee liabilities-stand ready	2,212,125	4,173,497	4,818,144	4,538,963	677,649	4,385,117	616,450
Guarantee liabilities-contingent	734,730	3,543,454	3,285,081	3,320,414	495,725	3,404,333	478,574
Income tax payable	1,056,219	1,227,314	624,112	654,347	97,691	683,342	96,063
Other tax payable	263,856	254,486	241,369	177,611	26,517	186,270	26,185
Total current liabilities	**9,667,187**	**13,384,508**	**14,143,186**	**16,823,516**	**2,511,684**	**17,942,932**	**2,522,378**
Net current assets	**9,836,301**	**8,491,534**	**13,614,037**	**13,984,332**	**2,087,807**	**15,334,890**	**2,155,742**

The following table sets forth our non-current assets and non-current liabilities as of the dates indicated, which should be read together with our consolidated financial statements and related notes included in Appendix IA to this document.

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	2022
	RMB	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)		
Non-current assets:					
Accounts receivable and contract assets, net-noncurrent	19,508	307,937	223,474	291,908	43,581
Financial assets receivable, net-noncurrent	59,270	645,326	597,965	683,078	101,981
Amounts due from related parties	–	–	140,851	55,136	8,231
Loans receivable, net-noncurrent	–	87,685	2,859,349	3,657,879	546,107
Property and equipment, net	17,113	19,360	24,941	20,487	3,059
Land use rights, net	–	–	1,018,908	1,008,548	150,572
Intangible assets	3,512	3,403	4,961	5,231	781
Deferred tax assets	697,348	1,398,562	834,717	1,059,963	158,248
Other non-current assets	55,362	48,990	42,606	76,030	11,351
Total non-current assets	**852,113**	**2,511,263**	**5,747,772**	**6,858,260**	**1,023,911**
Non-current liabilities:					
Deferred tax liabilities	–	37,843	121,426	173,777	25,944
Payable to investors of the consolidated trusts-noncurrent	3,442,500	1,468,890	4,010,597	3,613,690	539,510
Other long-term liabilities	31,184	14,974	13,177	34,147	5,099
Total non-current liabilities	**3,473,684**	**1,521,707**	**4,145,200**	**3,821,614**	**570,553**
Non-controlling interests	1,288	512	12,746	2,722	406
TOTAL EQUITY	**7,214,730**	**9,481,090**	**15,216,609**	**17,020,978**	**2,541,165**

Our net assets increased from RMB7,215 million as of December 31, 2019 to RMB9,481 million as of December 31, 2020, primarily due to our net income of RMB3,496 million generated for the year ended December 31, 2020, partially offset by the recognition of the cumulative effect of approximately RMB1,430 million as a decrease to the opening balances of retained earnings as of January 1, 2020, as a result of the adoption of ASC 326 in 2020. Our net assets increased from RMB9,481 million as of December 31, 2020 to RMB15,217 million as of December 31, 2021, primarily due to our net income of RMB5,765 million generated for the year ended December 31, 2021, partially offset by the dividends distribution of RMB277 million to shareholders. Our net assets increased from RMB15,217 million as of December 31, 2021 to RMB17,021 million (US$2,541 million) as of June 30, 2022, primarily due to our net income of RMB2,149 million (US$321 million) generated for the six months ended June 30, 2022, partially offset by the dividends distributions of RMB487 million (US$73 million) to shareholders.

We had net current assets positions as of December 31, 2019, 2020 and 2021 and as of June 30, 2022. Our net current assets positions as of each of these dates were primarily attributable to our large balance of net loans receivable, cash and cash equivalents, restricted cash, net accounts receivable and contract assets and net financial assets receivable, partially offset by our current payable to investors of the consolidated trusts, our stand-ready and contingent guarantee liabilities and our income tax payable.

Our net current assets decreased from RMB9,836 million as of December 31, 2019 to RMB8,492 million as of December 31, 2020 primarily due to (i) an increase by RMB3,717 million in our total current liabilities mainly attributable to an increase by RMB1,961 million in stand-ready guarantee liabilities and an increase by RMB2,809 million in contingent guarantee liabilities, (ii) partially offset by an increase by RMB2,373 million in our total current assets mainly attributable to an increase by RMB2,310 million in cash and cash equivalents, an increase by RMB1,653 million in net financial assets receivable and an increase by RMB628 million in restricted cash, which were partially offset by a decrease by RMB1,739 million in net loans receivable.

Our net current assets increased from RMB8,492 million as of December 31, 2020 to RMB13,614 million as of December 31, 2021 primarily due to (i) an increase by RMB5,881 million in our total current assets mainly attributable to an increase by RMB1,698 million in cash and cash equivalents, an increase by RMB2,344 million in net loans receivable, an increase by RMB703 million in net accounts receivable and contract assets, an increase by RMB644 million in amounts due from related parties, an increase by RMB288 million in restricted cash and an increase by RMB241 million in net financial assets receivable, (ii) partially offset by an increase by RMB759 million in our total current liabilities mainly attributable to RMB1,449 million in accrued expenses and other current liabilities and an increase by RMB645 million in stand-ready guarantee liabilities, which were partially offset by a decrease by RMB813 million in our current payable to investors of the consolidated trusts.

Our net current assets increased from RMB13,614 million as of December 31, 2021 to RMB13,984 million (US$2,088 million) as of June 30, 2022 primarily due to (i) an increase by RMB3,051 million (US$455 million) in our total current assets mainly attributable to an increase by RMB1,121 million (US$167 million) in restricted cash and an increase by RMB1,006 million (US$150 million) in net loans receivable and (ii) partially offset by an increase by RMB2,680 million (US$400 million) in our total current liabilities, which was mainly attributable to an increase by RMB2,920 million (US$436 million) in our current payable to investors of the consolidated trusts.

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

Taking into account our current cash and cash equivalents and restricted cash, anticipated cash flow from operation and the estimated net [**REDACTED**] available to us from the [**REDACTED**], our Directors believe that we have sufficient working capital for our present needs and for at least the next 12 months from the date of this document.

Cash and cash equivalents

Cash and cash equivalents consist of funds in banks, which are highly liquid and are unrestricted as to withdrawal or use.

Our cash and cash equivalents increased from RMB2,108 million as of December 31, 2019 to RMB4,418 million as of December 31, 2020, and to RMB6,116 million as of December 31, 2021, and further to RMB6,965 million (US$1,040 million) as of June 30, 2022, due to an increase in cash inflow from operating activities.

Restricted cash

Restricted cash mainly represents security deposits related to our loan facilitation services and cash held by our consolidated trusts and asset management plans through segregated bank accounts which can only be used to invest in loans or other securities as stipulated in the trust agreements. The trusts have a maximum operating period of two years. The cash in the trusts is not available to fund our general liquidity needs.

Our restricted cash increased from RMB1,728 million as of December 31, 2019 to RMB2,356 million as of December 31, 2020, and further to RMB2,644 million as of December 31, 2021, primarily due to an increase of security deposits set aside for certain financial institution partners in case of borrowers' defaults as a result of increased loan balance. Our restricted cash increased from RMB2,644 million as of December 31, 2021 to RMB3,765 million (US$562 million) as of June 30, 2022 primarily due to an increase of security deposits set aside for certain financial institution partners in case of borrowers' defaults as a result of increased loan balance.

Security deposits prepaid to third-party guarantee companies

We have engaged third-party licensed guarantee companies to provide guarantee to some financial institution partners since 2019, and sometimes we prepay an amount as back-to-back guarantee to these guarantee companies. Such prepayment in the deposit account under the guarantee company's name is recorded under this account. Our security deposit prepaid to third-party guarantee companies decreased from RMB933 million as of December 31, 2019 to RMB915 million as of December 31, 2020 and further to RMB875 million as of December 31, 2021, primarily due to the decrease in outstanding balance of loans over which we cooperate with third-party licensed guarantee companies to provide guarantee to certain financial institution partners. Our security deposit prepaid to third-party guarantee companies further decreased from RMB875 million as of December 31, 2021 to RMB698 million (US$104 million) as of June 30, 2022 primarily due to the same reason.

Accounts receivable and contract assets, net

Accounts receivable arises from loans that we are entitled to full service fees for our facilitation or referral services that have been delivered regardless of whether the borrowers choose to early repay or not. Accounts receivable consists of (i) accounts receivable from loan facilitation services, (ii) accounts receivable from post facilitation services and (iii) accounts receivable from referral services. Contract assets, on the other hand, primarily arise from loans that borrowers have the option of early repayment, under which our right to receive the full amount of the stipulated total service fees is conditional on whether the borrowers repay in advance. Contract assets consist of (i) contract assets from loan facilitation services, (ii) contract assets from post facilitation services and (iii) contract assets from referral services.

We have established an allowance for uncollectible accounts receivable and contract assets based on estimates, which incorporates historical experience and other factors surrounding the credit risk of specific type of borrowers. We evaluate and adjust our allowance for uncollectible accounts receivable and contract assets on a quarterly basis or more often as necessary and the related expenses are recorded as "provision for accounts receivable and contract assets." For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, provision for accounts receivable and contract assets amounted to RMB230 million, RMB237 million, RMB324 million, RMB157 million and RMB117 million (US$17 million), respectively. As of September 30, 2022, RMB24 million (US$4 million), or 96.8% of our accounts receivable as of June 30, 2022 were subsequently settled, and RMB1,219 million (US$182 million), or 29.8% of our contract assets as of June 30, 2022 were subsequently settled and certified. We expect to settle the remaining accounts receivable with counterparties when they resume office operations along with the gradual containment of the recent resurgence of COVID-19. The subsequent settlement of contract assets is slow for the following reasons: we recognize revenue from loan facilitation service at the time a loan is facilitated between the financial institution partners and the borrowers and the principal loan balance is transferred to the borrowers, at which time the facilitation service is considered completed. Since nil amount is paid at loan inception, we record a corresponding contract asset if our right to consideration for the service fees is conditional. Such contract asset will be reduced by afterwards collection proportionately allocated to it on a monthly basis over the entire tenure of the underlying loans facilitated, which ranges from 1 to 36 months. Taking these factors into account, we believe that, during the Track Record Period and up to the Latest Practicable Date, there is no material recoverability issue for accounts receivable and contract assets and our provision for accounts receivable and contract assets is sufficient.

Accounts receivable and contract assets increased from RMB2,544 million as of December 31, 2019 to RMB2,958 million as of December 31, 2020, and to RMB3,637 million as of December 31, 2021, and further to RMB4,116 million (US$615 million) as of June 30, 2022, net of allowance of RMB192 million, RMB256 million, RMB316 million and RMB325 million (US$48 million), respectively, mainly due to the increase in our loan facilitation volume and the target contractual tenor of loans.

The table below sets forth our net accounts receivable and contract assets as of the dates indicated.

	As of December 31,			**As of June 30,**	
	2019	**2020**	**2021**	**2022**	
	RMB	*RMB*	*RMB*	*RMB*	*US$*
			(in thousands)		
Accounts receivable, net	2,211,103	161,098	15,066	25,080	3,744
Contract assets, net	140,769	2,541,367	3,305,662	3,766,213	562,281
Total	**2,351,872**	**2,702,465**	**3,320,728**	**3,791,293**	**566,025**

We treat accounts receivable, contract assets, and financial assets receivable as a whole in calculating turnover days as they represents the total fees chargeable from customers for facilitating off-balance sheet loans. Receivables of the same nature from funding partners which are related parties are recorded in "amounts due from related parties" and also included for calculating turnover days.

Turnover days for a given period equal to the average balances of such receivable and contract assets mentioned above at the beginning and the end of the period, divided by total loan facilitation and servicing fees, referral services fees and revenue from releasing of guarantee liabilities during the period, and multiplied by the number of days during the period. The following table represents the turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Turnover days from related receivables and contract assets from loan facilitation:	192	193	203	238

The increase of turnover days from related receivables and contract assets from loan facilitation from 192 to 238 during the Track Record Period is in line with the increase of tenure of loans facilitated.

The significant increase in net contract assets and the decrease in net accounts receivable in 2020 are primarily due to the shift in early repayment term for loans newly facilitated in 2020. For majority of the loans facilitated in 2020, borrowers no longer have the obligation to pay the remaining monthly service fees when the loans are early repaid or do not have to pay the excessive portion if the total fees are more than 36% of the origination principal on an annualized basis. Under this term, our right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. In these instances, we record a corresponding contract asset when recognizing revenue from loan facilitation service.

Financial assets receivable, net

We recognize financial assets receivable at the inception of the off-balance sheet loans facilitated through our platform if we provide guarantee of repayments to our financial institution partners. The financial assets receivable is equal to the stand-ready guarantee liabilities recorded at fair value and we consider what premium would be required by us to issue the same guarantee service in a standalone arm's length transaction. The financial assets receivable is accounted for as a financial asset, and reduced upon the receipt of the service fee payment from our financial institution partners.

The following table sets forth a breakdown of financial assets receivable as of the dates indicated.

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	
	RMB	*RMB*	*RMB*	*RMB*	*US$*
	(in thousands)				
Financial assets receivable	2,142,627	4,601,642	4,897,854	4,821,201	719,786
Allowance for uncollectible receivables	(170,803)	(390,834)	(493,646)	(519,563)	(77,568)
Financial assets receivable, net	**1,971,824**	**4,210,808**	**4,404,208**	**4,301,638**	**642,218**

Financial assets receivable increased from RMB2,143 million as of December 31, 2019 to RMB4,602 million as of December 31, 2020, and to RMB4,898 million as of December 31, 2021, and further to RMB4,821 million (US$720 million) as of June 30, 2022, net of allowance of RMB171 million, RMB391 million, RMB494 million and RMB520 million (US$78 million), respectively, mainly reflecting trends in average outstanding balance of off-balance sheet loans under credit-driven services during the Track Record Period. As of September 30, 2022, RMB1,369 million (US$204 million), or 28.4%, of our financial assets receivable as of June 30, 2022 was settled.

Loans receivable, net

Loans receivable represents loans on our balance sheet facilitated through our consolidated trusts, as well as loans facilitated by Fuzhou Microcredit.

The following table sets forth a breakdown of loans receivable as of the dates indicated.

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	
	RMB	*RMB*	*RMB*	*RMB*	*US$*
	(in thousands)				
Loans receivable	9,591,204	8,010,081	13,652,723	15,844,979	2,365,593
Less allowance for loan losses	(351,639)	(421,767)	(948,893)	(1,336,642)	(199,555)
Loans receivable, net	**9,239,565**	**7,588,314**	**12,703,830**	**14,508,337**	**2,166,038**

Loans receivable decreased from RMB9,591 million as of December 31, 2019 to RMB8,010 million as of December 31, 2020, net of allowance of RMB352 million and RMB422 million, respectively, mainly due to the decrease in our outstanding on-balance sheet loans balance. Loans receivable increased from RMB8,010 million as of December 31, 2020 to RMB13,653 million as of December 31, 2021, and further to RMB15,845 million (US$2,366 million) as of June 30, 2022, net of allowance of RMB422 million, RMB949 million and RMB1,337 million (US$200 million), respectively, mainly due to the increase in our outstanding on-balance sheet loans balance. As of September 30, 2022, RMB7,545 million (US$1,126 million), or 47.6%, of our loan receivable as of June 30, 2022 was settled.

Expected credit losses

The following table sets forth the expected credit loss rates for accounts receivable and contract assets, financial assets receivable and loans receivable as of December 31, 2020 and 2021 and June 30, 2022.

	As of December 31, 2020			As of December 31, 2021			As of June 30, 2022		
	Gross Carrying Amount	Allowance	Expected credit loss rate	Gross Carrying Amount	Allowance	Expected credit loss rate	Gross Carrying Amount	Allowance	Expected credit loss rate
	RMB	*RMB*	*%*	*RMB*	*RMB*	*%*	*RMB*	*RMB*	*%*
	(in thousands, except for percentages)								
Financial assets receivable	4,601,642	(390,834)	8.5	4,897,854	(493,646)	10.1	4,821,201	(519,563)	10.8
Accounts receivable and contract assets	2,958,292	(255,827)	8.6	3,636,640	(315,912)	8.7	4,116,006	(324,713)	8
Loans receivable	8,010,081	(421,767)	5.3	13,652,723	(948,893)	7.0	15,844,979	(1,336,642)	8

Intangible assets

Intangible assets include purchased software and others.

Our intangible assets decreased from RMB4 million as of December 31, 2019 to RMB3 million as of December 31, 2020 primarily due to the effect of amortization. Our intangible assets increased from RMB3 million as of December 31, 2020 to RMB5 million as of December 31, 2021 primarily due to the increase in purchase of software for daily operations. Our intangible assets remained approximately the same as of June 30, 2022.

Land use rights, net

Land use rights represent lease prepayments to the local government authorities and are recorded at cost less accumulated amortization.

In March 2021, our consolidated subsidiary, 360 Changfeng obtained the land use rights from local authorities to develop and build the regional headquarters and the affiliated industrial park for our future operations. As of June 30, 2022, a total of RMB1.0 billion were contributed by its shareholders to acquire the land use rights, of which RMB0.7 billion was funded by Shanghai Qiyu.

Payable to investors of the consolidated trusts

Some financial institution partners require us to disburse loans indirectly to borrowers through our consolidated trusts. Payable to investors of the consolidated trusts without recourse to us represents the investment returns these financial institution partners require to be paid.

Payable to investors of the consolidated trusts decreased from RMB7,866 million as of December 31, 2019 to RMB4,587 million as of December 31, 2020, mainly due to the fact that a part of our consolidated trusts expired. Payable to investors of the consolidated trusts increased from RMB4,587 million as of December 31, 2020 to RMB6,315 million as of December 31, 2021, and further to RMB8,839 million (US$1,320 million) as of June 30, 2022, mainly due to the increase in our on-balance sheet loan volume.

Guarantee liabilities-stand ready

We recognize a stand-ready guarantee liability at the inception of an off-balance sheet loan for which we provide guarantee services. Stand-ready guarantee is released into guarantee revenue on a straight-line basis over the term of the guarantee.

Guarantee liabilities-stand ready increased from RMB2,212 million as of December 31, 2019 to RMB4,173 million as of December 31, 2020, primarily due to an increase of RMB6,921 million as provision for new loans facilitated, which was partially offset by a decrease of RMB4,896 million as such guarantee liabilities were released into revenue in accordance with the accounting standard ASC326. Our guarantee liabilities-stand ready increased from RMB4,173 million as of December 31, 2020 to RMB4,818 million as of December 31, 2021 primarily due to an increase of RMB6,626 million as provision for new loans facilitated, which was partially offset by a decrease of RMB5,982 million as such guarantee liabilities were released into revenue in accordance with the accounting standard. Our guarantee liabilities-stand ready decreased from RMB4,818 million as of December 31, 2021 to RMB4,539 million (US$678 million) as of June 30, 2022, primarily due to a decrease of RMB3,298 million as such guarantee liabilities were released into revenue in accordance with the accounting standard, which was partially offset by an increase of RMB3,019 million as provision for new loans facilitated.

Guarantee liabilities-contingent

After the adoption of ASC 326 on January 1, 2020, at the inception of an off-balance sheet loan, we also recognize a separate contingent guarantee liability with an allowance for credit losses following the CECL model. The contingent guarantee is reduced by the payouts made by us to compensate the financial institutions upon borrowers' default. Allowance for credit losses under CECL model was included in "provision for contingent liabilities" and revalued at each period end to reflect updated estimation for future net pay-out.

Prior to the adoption of ASC 326, we only recognize a stand-ready guarantee liability at loan inception. Subsequently, we evaluate and adjust the probable loss in excess of stand-ready liability related to our guarantee service due to the re-measurement of the expected default rates of the underlying outstanding off-balance-sheet loans and incur expenses on guarantee liabilities only if we believe the previous evaluation of the liabilities is not sufficient based on the situation at the time we record such expenses. Guarantee liabilities-contingent increased from RMB735 million as of December 31, 2019 to RMB3,543 million as of December 31, 2020, mainly due to our adoption of a new accounting standard ASC 326, Financial Instruments – Credit Losses under U.S. GAAP in 2020, which requires us to record financial guarantee on a gross basis. As a result, we recognize both a stand-ready liability and a contingent guarantee liability with an allowance for credit losses at inception of the guarantee. Guarantee liabilities-contingent decreased from RMB3,543 million as of December 31, 2020 to RMB3,285 million as of December 31, 2021, mainly due to the decrease in our outstanding off-balance sheet loans balance in 2021. Guarantee liabilities-contingent increased slightly from RMB3,285 million as of December 31, 2021 to RMB3,320 million (US$496 million) as of June 30, 2022, mainly because the increase in our outstanding off-balance sheet loans balance.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through cash generated by operating activities and historical equity financing activities. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had cash and cash equivalents and restricted cash of RMB3.8 billion, RMB6.8 billion, RMB8.8 billion and RMB10.7 billion (US$1.6 billion), respectively. Our cash and cash equivalents primarily consist of funds in banks, which are highly liquid and are unrestricted as to withdrawal or use.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2019	2020	2021	2021	2022	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*US$*
				(Unaudited)		
	(in thousands)					
Summary Consolidated Cash Flow Data:						
Net cash provided by operating activities	2,973,075	5,325,810	5,789,700	2,001,639	2,537,911	378,900
Net cash (used in)/provided by investing activities	(8,860,441)	892,770	(6,064,328)	(2,287,998)	(2,694,432)	(402,267)
Net cash provided by/(used in) financing activities	7,707,858	(3,282,400)	2,263,720	1,351,545	2,129,177	317,877
Net increase in cash and cash equivalents	1,822,254	2,938,416	1,985,681	1,062,434	1,970,279	294,155
Cash, cash equivalents, and restricted cash at the beginning of year	2,013,596	3,835,850	6,774,266	6,774,266	8,759,947	1,307,826
Cash, cash equivalents, and restricted cash at the end of year	3,835,850	6,774,266	8,759,947	7,836,700	10,730,226	1,601,981

Operating activities

Net cash provided by operating activities was RMB2,538 million (US$379 million) for the six months ended June 30, 2022. The difference between net cash provided by operating activities and the net income of RMB2,149 million (US$321 million) mainly resulted from (i) adding back non-cash item share-based compensation of RMB99 million (US$15 million), (ii) adding back non-cash item provision for loan principal, financial assets receivables and other receivables of RMB1,189 million (US$177 million) and (iii) adding back non-cash item provision for contingent liabilities of RMB2,163 million (US$323 million), partially offset by additional RMB3,197 million (US$477 million) used for working capital. The change in cash used for working capital was mainly a result of a RMB2,406 million (US$359 million) increase in guarantee liabilities. The increase of these working capital items was the result of our rapid expansion of business.

Net cash provided by operating activities was RMB2,002 million for the six months ended June 30, 2021. The difference between net cash provided by operating activities and the net income of RMB2,895 million mainly resulted from (i) adding back non-cash item share-based compensation of RMB127 million, (ii) adding back non-cash item provision for loan principal, financial assets receivables and other receivables of RMB643 million and (iii) adding back non-cash item provision for contingent liabilities of RMB1,221 million, partially offset by additional RMB2,893 million used for working capital. The change in cash used for working capital was mainly a result of a RMB1,036 million increase in land use rights and a RMB1,171 million decrease in guarantee liabilities. The increase of these working capital items was the result of our rapid expansion of business.

Net cash provided by operating activities was RMB5,790 million in 2021. The difference between net cash provided by operating activities and the net income of RMB5,765 million mainly resulted from (i) adding back non-cash item share-based compensation of RMB254 million, (ii) adding back non-cash item provision for loan principal, financial assets receivables and other receivables of RMB1,554 million and (iii) adding back non-cash item provision for contingent liabilities of RMB3,078 million, partially offset by additional RMB4,881 million used for working capital. The change in cash used in working capital was mainly a result of a RMB820 million increase in accounts receivable and contract assets, a RMB437 million increase in financial assets receivables, a RMB2,691 million decrease in guarantee liabilities, and a RMB1,036 million increase in land use rights, which was partially offset by RMB898 million increase in accrued expenses and other current liabilities. The increase of these working capital items was the result of our rapid expansion of business.

Net cash provided by operating activities was RMB5,326 million in 2020. The difference between net cash provided by operating activities and the net income of RMB3,496 million mainly resulted from (i) adding back non-cash item share-based compensation of RMB301 million, (ii) adding back non-cash item provision for loan principal, financial assets receivables and other receivables of RMB1,248 million and (iii) adding back non-cash item provision for contingent liabilities of RMB4,794 million, partially offset by (iv) additional RMB4,448 million used for working capital. The change in cash used in working capital was mainly a result of a RMB513 million increase in accounts receivable and contract assets, a RMB2,465 million increase in financial assets receivables, and a RMB1,913 million increase in guarantee liabilities, and was partially offset by RMB171 million increase in income tax payable. The increase of these working capital items was the result of our rapid expansion of business.

Net cash provided by operating activities was RMB2,973 million in 2019. The difference between net cash provided by operating activities and the net income of RMB2,501 million mainly resulted from (i) adding back non-cash item share-based compensation of RMB250 million, and (ii) adding back non-cash item provision for loan principal, financial assets receivables and other receivables of RMB883 million, partially offset by (iii) additional RMB670 million used for working capital. The change in cash used in working capital was mainly a result of a RMB755 million increase in accounts receivable and contract assets, a RMB929 million increase in financial assets receivables, a RMB536 million increase in prepaid expenses and other assets, a RMB137 million increase in security deposit prepaid to third-party guarantee companies, and a RMB713 million increase in deferred tax, and was partially offset by a RMB1,548 million increase in guarantee liabilities, a RMB624 million increase in income tax payable, and a RMB207 million increase in accrued expenses and other current liabilities. The increase of these working capital items was the result of our rapid expansion of business.

Investing activities

Net cash used in investing activities was RMB2,694 million (US$402 million) for the six months ended June 30, 2022, which was primarily attributable to investment in loans receivable of RMB24,708 million (US$3,689 million), partially offset by the collection of investment in loans receivable of RMB22,024 million (US$3,288 million). The net outflow of loans investment mainly resulted from the growth of on-balance sheet lending.

Net cash used in investing activities was RMB2,288 million for the six months ended June 30, 2021, which was primarily attributable to investment in loans receivable of RMB17,336 million, partially offset by the collection of investment in loans receivable of RMB15,108 million. The net outflow of loans investment mainly resulted from the growth of on-balance sheet lending.

Net cash used in investing activities was RMB6,064 million in 2021, which was primarily attributable to investment in loans receivable of RMB40,169 million, partially offset by the collection of investment in loans receivable of RMB34,131 million. The net outflow of loans investment mainly resulted from the growth of on-balance sheet lending.

Net cash provided by investing activities was RMB893 million in 2020, which was primarily attributable to investment in loans receivable of RMB38,720 million, partially offset by the collection of investment in loans receivable of RMB39,629 million. The net inflow of loans investment was mainly the result of our on-balance sheet collection.

Net cash used in investing activities was RMB8,860 million in 2019, which was primarily attributable to the investment in loans receivable of RMB26,339 million, partially offset by the collection of investment in loans receivable of RMB17,504 million. The net outflow of loans investment was mainly the result of our growing on-balance sheet lending.

Financing activities

Net cash provided by financing activities was RMB2,129 million (US$318 million) for the six months ended June 30, 2022, which was primarily attributable to RMB4,514 million (US$674 million) cash received from investors of the consolidated trusts, and RMB190 million (US$28 million) received from short-term loans, partially offset by cash paid to investors of the consolidated trusts of RMB2,024 million (US$302 million) and dividend paid to shareholders of RMB552 million (US$82 million).

Net cash provided by financing activities was RMB1,352 million for the six months ended June 30, 2021, which was primarily attributable to RMB3,015 million cash received from investors of the consolidated trusts, RMB344 million loan received from non-controlling interests and RMB344 million cash received from a related party for investment, partially offset by cash paid to investors of the consolidated trusts of RMB2,443 million.

Net cash provided by financing activities was RMB2,264 million in 2021, which was primarily attributable to RMB5,929 million cash received from investors of the consolidated trusts, and RMB364 million received from short-term loans, partially offset by cash paid to investors of the consolidated trusts of RMB4,193 million and RMB150 million repaid for short-term loans.

Net cash used in financing activities was RMB3,282 million in 2020, which was primarily attributable to cash paid to investors of the consolidated trusts of RMB6,360 million, RMB3,092 million cash received from investors of the consolidated trusts, and RMB187 million received from short-term loans, partially offset by RMB200 million repaid for short-term loans.

Net cash provided by financing activities was RMB7,708 million in 2019, which was primarily attributable to cash received from investors of the consolidated trusts of RMB8,360 million, and RMB1,700 million received from short-term loans, partially offset by RMB1,500 million repaid for short-term loans.

HOLDING COMPANY STRUCTURE

360 DigiTech, Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries, our variable interest entities and their subsidiaries in China. As a result, 360 DigiTech, Inc.'s ability to pay dividends may depend upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries, our variable interest entities and their subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at its discretion, and our variable interest entity may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until it generates accumulated profits and meet the requirements for statutory reserve funds.

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures were mainly used for purchases of property, equipment and software. We incurred capital expenditures of RMB25.6 million, RMB15.3 million, RMB25.3 million and RMB4.5 million (US$0.6 million) in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our capital expenditures for 2022 are expected to be approximately RMB41.9 million (US$6.3 million), consisting primarily of expenditures related to the expansion and enhancement of our information technology infrastructure and the construction of our new office buildings in Shanghai. We will continue to incur capital expenditures to meet the expected growth of our business.

We intend to fund our existing and future capital expenditures with our existing cash and cash equivalents, restricted cash, short-term investments and other financing alternatives. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

CONTRACTUAL OBLIGATIONS

Our contractual obligations mainly represent operating lease obligations, which relate to our leases of office premises and our land use rights over the parcel of land that 360 Changfeng, acquired to construct our regional headquarters and the affiliated industrial park for our future operations. We lease our office premises under non-cancelable operating lease arrangements. Rental expenses under operating leases for 2019, 2020, 2021 and the six months ended June 30, 2022 were RMB20.1 million, RMB29.0 million, RMB51.6 million and RMB32.1 million (US$4.8 million), respectively. Amortization expenses of land use rights for 2019, 2020, 2021 and the six months ended June 30, 2022 amounted to nil, nil, RMB17.3 million and RMB10.4 million (US$1.5 million), respectively.

Our short-term loans obligations relate to bank borrowings obtained from domestic commercial banks. Our short-term loans obligations were RMB200 million, RMB186.8 million, RMB397.6 million and RMB611.2 million (US$91.2 million) as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively.

The following table sets forth our contractual obligations and short-term loans obligations as of June 30, 2022:

	Total	Less than 1 year	1 – 3 Years	3 – 5 Years	More than 5 years
	(RMB in thousands)				
Operating Leases Obligations	75,257	38,326	36,931	–	–
Short-term Loans Obligations	611,164	611,164	–	–	–

As of September 30, 2022, we had outstanding amount of short-term loans of RMB639.8 million (US$89.9 million), of which RMB150.0 million was guaranteed by Shanghai Qibutianxia Co., Ltd. and unsecured, and the remaining short-term loans were unguaranteed and unsecured. As of the same date, we had outstanding amount of long-term mortgage loans of RMB4.2 million (US$0.6 million), which were secured by the land use right owned by Shanghai 360 Changfeng Technology, Co., Ltd. and were unguaranteed. As of September 30, 2022, we also had operating lease liabilities amounting to RMB62.0 million (US$8.7 million), certain of which were secured by the rental deposits and all of which were unguaranteed. As of the same date, we had payable to shareholder of non-controlling interests of RMB218.9 million (US$30.8 million), which was unguaranteed and unsecured.

Other than those shown above, the obligations from on-balance-sheet loans, which were unguaranteed and unsecured, and guarantees related to the loans we facilitated, we did not have any significant capital and other commitments and long-term obligations as of June 30, 2022 and September 30, 2022. For details of our indebtedness, see Unaudited Condensed Consolidated Financial Statements in Appendix IB to this document.

As of September 30, 2022 and the Latest Practicable Date, save as disclosed in Note 14 to Appendix IB of this document and guarantees related to the loans we facilitated, we did not have significant contingent liabilities.

Save as disclosed above, since the Latest Practicable Date 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

Aside from the contractual obligations set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, we have not entered into any material derivative contracts that are indexed to our shares and classified as shareholders' equity or that are not reflected in our consolidated financial statements. 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. Moreover, 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 product development services with us.

RELATED PARTY TRANSACTIONS

For details of our related party transactions, see "Related Party Balances and Transactions" and Note 10 to the Accountants' Report and Unaudited Condensed Consolidated Financial Statements in Appendix IA and Appendix IB to this document. 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

Inflation

To date, 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 2.9%, 2.5% and 0.9% in 2019, 2020 and 2021, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

Market Risks

Foreign exchange risk

Substantially all of our revenues and expenses are denominated in Renminbi. When considered appropriate, we enter into hedging activities with regard to exchange rate risk, which have not had any material impact on our financial condition. Although our exposure to foreign exchange risks should be limited in general, the value of your [**REDACTED**] in the ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in Renminbi, while the ADSs will be traded in U.S. dollars. See "Risk Factors – Fluctuations in exchange rates could have a material adverse effect on our results of operations and the price of our Shares and ADSs."

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

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

As of June 30, 2022, we had U.S. dollar-denominated cash, cash equivalents and short-term investments of US$10.2 million. Assuming we had converted US$10.2 million into Renminbi at the exchange rate of RMB6.6981 for US$1.00 as of June 30, 2022, the Renminbi cash balance of such U.S. dollar-denominated assets would have been RMB68.1 million. If Renminbi had depreciated by 10% against the U.S. dollar, the Renminbi cash balance of such U.S. dollar-denominated assets would have been RMB74.9 million instead. In addition, we had

U.S. dollar-denominated short-term loans of US$68.9 million as of June 30, 2022. A hypothetical 10% increase in the exchange rate of the U.S. dollar against the RMB would have resulted in an increase of RMB46.1 million (US$6.9 million) in the value of our U.S. dollar-denominated short-term loans as of June 30, 2022.

Interest rate risk

We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. The fluctuation of interest rates may affect the demand for loan services on our platform. For example, a decrease in interest rates may cause prospective borrowers to seek lower-priced loans from other channels. A high interest rate environment may lead to an increase in competition for investment options and dampen our financial institution partners' desire to fund loans on our platform. We do not expect that the fluctuation of interest rates will have a material impact on our financial condition. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future. See "Risk Factors – Risks Related to Our Business and Industry – Fluctuations in interest rates could negatively affect our loan facilitation volume."

We may invest the net [**REDACTED**] we receive from our securities [**REDACTED**] in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements and the accompanying notes. We base our estimates on historical experience, known trends and events, and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. On an ongoing basis, we evaluate our judgments and estimates in light of changes in circumstances, facts, and experience. The effects of material revisions in estimates, if any, are reflected in the consolidated financial statements prospectively from the date of change in estimates.

The following descriptions of critical accounting policies and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this document. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the estimates and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue recognition

Through collaborating with channel partners to direct users with credit needs to our app, we provide services through facilitation of loan transactions between borrowers and funding partners through the use of two business models. The loans facilitated under both models are with terms up to 36 months (the majority are within the terms of 1~12 months) and with principal of up to RMB500,000. Our services mainly consist of: (1) performing borrower acquisition, risk assessment on the borrowers on our mobile platform and matching financial institution partners to potential qualified borrowers and facilitating the execution of loan agreements between the parties, referred to as "loan facilitation services"; and (2) providing collection and other processing services for financial institution partners over the loan term, referred to as "post-facilitation services."

Based on the agreements entered into between our financial institution partners and borrowers, we determined that we are not the legal lender or borrower in the loan facilitation and repayment process. Accordingly, we do not record loans receivable and payable arising from the loan between financial institution partner and borrowers.

We charge service fees directly from our financial institution partners based on the contractual agreements. We cooperate with insurance companies and financing guarantee companies to provide guarantee for the loans between borrowers and financial institution partners. Under this cooperation, we charge guarantee fees from borrowers, which include insurance premiums collected on behalf of insurance companies.

For off-balance sheet loans under credit-driven services, we enjoy a fixed rate of service fees and for capital light loans, the service fee rate we are entitled to is subject to adjustment based on the actual default rate of the underlying loans.

Under the off-balance sheet loans under credit-driven services, we also provide guarantee services to our financial institution partners whereas in the event of default, the financial institution partners are entitled to receive unpaid interest and principal from us. Given that we effectively take on all of the credit risk of the borrowers and are compensated by the service fees charged, the guarantee is deemed as a service and the guarantee exposure is recognized as a stand-ready obligation in accordance with ASC Topic 460, Guarantees (see accounting policy for guarantee liabilities and financial assets receivable). Under the capital-light model, we either provide no guarantee or partial guarantee service. Under the partial guarantee scenario, we agree with each financial institution partner a fixed upper limit of guarantee amount that we are liable for. If the accumulated defaulted loan amount exceeds the agreed upper limit, the excess portion is borne by the financial institution partner.

We recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. To achieve that core principle, we apply the following steps:

Step 1: Identify the contract (s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

We determine that both financial institution partners and borrowers are our customers because they both receive services provided by us pursuant to the contractual terms among us, borrowers and financial institution partners. For each loan facilitated on the platform, we consider the loan facilitation service, post-facilitation service and guarantee service (not applicable for arrangements where we do not provide any guarantee service) as three separate services. Of which, the guarantee service is accounted for in accordance with ASC Topic 460, Guarantees, at fair value. Revenue from guarantee services is recognized once we are released from the underlying risk. Starting from 2020, we recognized the stand-ready guarantee liability at the inception of each loan, and it was amortized to "revenue from releasing of guarantee liabilities" over the term of the guarantee (see accounting policy for Guarantee liabilities and financial assets receivable).

While the post-facilitation service is within the scope of ASC Topic 860, the ASC Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860. The loan facilitation service and post-facilitation service are two separate performance obligations under ASC 606, as these two deliverables are distinct in that customers can benefit from each service on its own and our promises to deliver the services are separately identifiable from each other in the contract.

We determine the total transaction price to be the service fees chargeable from borrowers or financial institution partners. Our transaction price includes variable consideration in the form of prepayment risk of the borrowers and service fee allocation rate under capital light model under certain agreements. We estimate the prepayment risk of borrowers using the expected value approach on the basis of historical information and current trends of the collection percentage of the borrowers. The service fee allocated to us under capital light model would be fluctuated along with the actual default rate of the loans facilitated. We use the service fee allocation rate applicable to the estimated default rate of the underlying loans. The estimate of prepayment risk of borrowers is subject to changes in our estimate of borrowers' future repayment pattern. A decrease in the amount of loans to be repaid in advance or an increase in tenure of early repayment would result in a greater amount of total transaction price than initially expected and vice versa. Further, if the default rate of underlying loans decreases beyond a certain level, the service fee rates enjoyed by us so as the total transaction price would increase than initially expected and vice versa. The transaction price is allocated amongst the guarantee service, if any, and the other two performance obligations.

We first allocate the transaction price to the guarantee liabilities, if any, in accordance with ASC Topic 460, Guarantees which requires the guarantee to be measured initially at fair value based on the stand-ready obligation. Then the remaining considerations are allocated to the loan facilitation services and post-facilitation services using their relative standalone selling prices consistent with the guidance in ASC 606. We do not have observable standalone selling price information for the loan facilitation services or post-facilitation services because we do not provide loan facilitation services or post-facilitation services on a standalone basis. There is no direct observable standalone selling price for similar services in the market reasonably available to us. As a result, the estimation of standalone selling price involves significant judgment. We use expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post-facilitation services as the basis of revenue allocation. In estimating our standalone selling price for the loan facilitation services and post-facilitation services, we consider the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on our services, and other market factors.

For each type of service, we recognize revenue when (or as) we satisfy the service/performance obligation by transferring the promised service (that is, an asset) to customers. Revenues from loan facilitation services are recognized at the time a loan is facilitated between financial institution partners and borrowers and the principal loan balance is transferred to the borrowers, at which time the facilitation service is considered completed. Revenues from post-facilitation services are recognized on a straight-line basis over the term of the underlying loans as the post-facilitation services are a series of distinct services that are substantially the same and that have the same pattern of transfer to financial institution partners. Revenues from guarantee services are recognized through performance of the guarantees (by making payment for defaults) or at the expiry of the guarantee term. Starting from 2020, we recognized the stand-ready guarantee liability at the inception of each loan, and it was amortized to "revenue from releasing of guarantee liabilities" over the term of the guarantee.

For loans facilitated through our consolidated trusts and Fuzhou Microcredit in which we recognize the loans on the balance sheet, we recognized revenue under 'financing income' the fees and interests charged to the borrowers over the lifetime of the loans using the effective interest method.

Allowance for credit losses

On January 1, 2020, we adopted ASC 326, Financial Instruments – Credit Losses, which requires recognition of allowances upon facilitation or acquisition of financial assets at an estimate of expected credit losses over the contractual term of the financial assets (the current expected credit loss, or the "CECL" model).

Financial assets subject to the CECL model mainly include loans receivable, accounts receivable, contract assets and financial assets receivable. Allowances for these financial assets are driven by estimated default rate of underlying loans. We do not assign internal risk ratings to loans facilitated as they are of small balance and homogeneous. We estimate the default rate based on historical net default rate of loans on a pool basis grouped by vintage of facilitation. Internal and external correlation factors, such as CPI, money supply and delinquent loan collection rate are identified based on regular review of historical data and updated on a timely basis once we become aware of any new patterns. Future trend of the abovementioned correlation factors are then fed into our model to predict default rate for each loan portfolios. For external factors, we use projections commonly used within the industry. For internal factors, we make projections based on historical data adjusted by our current risk and business strategies which we think could have potential impacts into the future periods. We monitor the delinquency status by vintage of facilitation and write off delinquent loans timely when the loans become uncollectible. Other than that, there are no specific credit quality indicators that we use to estimate the default rate of the loan portfolio.

The adoption of CECL model does not change our Group's method used to estimate loan losses. The allowance for loans receivable is calculated based on estimated default rate of loans facilitated through the consolidated trusts or Fuzhou Microcredit. The allowance for accounts receivable, contract assets, financial assets receivable and accounts receivable, contract assets and financial assets receivables from related parties is assessed in accordance with the estimated default rate of the underlying off-balance loans facilitated. Since the allowance is recorded at loan inception based on the estimated collectability over the entire loan tenure and adjusted in each subsequent reporting period based on update of relevant information, the adoption of the CECL model does not have material impact on the timing and amount of allowance recognized for these financial assets.

Other financial receivables subject to the CECL model mainly include security deposit prepaid to third-party guarantee companies, funds receivable from third-party payment service providers, other receivables from related parties and security deposits paid to insurance companies, which are of short-term and show no historical default record. We determine no allowance is needed for these receivables, except for receivables from related parties as financial institution partners, which are based on the estimated default rate of underlying loans as discussed above.

The adoption of ASC 326 also requires us to record financial guarantee on a gross basis. As such, we recognized a separate contingent guarantee liability with an allowance for credit losses following the CECL model at the inception of loans facilitated with guarantee services provided (see accounting policy for Guarantee liabilities and financial assets receivable). The allowance is an estimate of future net-payout by us upon borrowers' default, which is ultimately based on the same estimated default rate of loans facilitated as discussed above.

Guarantee liabilities and financial assets receivable

For the loans facilitated through the loan facilitation business, we provided a guarantee service to our financial institution partners whereas in the event of default, the financial institution partners are entitled to receive unpaid interest and principal from us. In general, any unpaid interest and principal are paid when the borrower does not repay as scheduled.

From February 2018, to follow the recent regulation change, particularly Circular 141 which came into effect in December 2017, we have been switching to a guarantee company model under which third-party licensed vendors including financing guarantee companies and insurance companies directly provide guarantee services to the financial institution partners. Under the cooperation with financing guarantee companies, these guarantee companies initially reimburses the loan principal and interest to financial institution partners upon borrowers' default. Although we do not have direct contractual obligation to the financial institution partners for defaulted principal and interest, we provide back-to-back guarantee to the licensed guarantee companies. As agreed in the back-to-back guarantee contract, we would pay the licensed guarantee companies for actual losses incurred based on defaulted principal and interest. Under the cooperation with insurance companies, our Company is obligated to provide funding in the form of security deposit with the insurance companies which is used to compensate the financial institution partners for borrowers' default. Given that we effectively take on all of the credit risk of the borrowers, we recognize a stand ready obligation for its guarantee exposure in accordance with ASC Topic 460.

Under capital light model, in the condition of no guarantee service provided, we do not take any credit risk and do not record any guarantee liabilities associated with those loans. Besides, in the condition of partial guarantee, the amount of guarantee exposure is immaterial for the years ended December 31 2019, 2020, 2021 and the six months ended June 30, 2022.

At the inception of each loan, we recognize the guarantee liability at fair value in accordance with ASC 460-10, which incorporates the expectation of potential future payments under the guarantee and takes into both non-contingent and contingent aspects of the guarantee. Subsequent to the loan's inception, the guarantee liability is composed of two components: (i) ASC Topic 460 component; and (ii) ASC Topic 450 component. The liability recorded based on ASC Topic 460 is determined on a loan by loan basis and it is reduced when we are released from the underlying risk, i.e. as the loan is repaid by the borrower or when the investor is compensated in the event of a default. This component is a stand ready obligation which is not subject to the probable threshold used to record a contingent obligation. When we are released from the stand ready liability upon expiration of the underlying loan, we record a corresponding amount as "Revenue from releasing of guarantee liabilities" in the consolidated statement of comprehensive income. The other component is a contingent liability determined based on probable loss considering the actual historical performance and current conditions, representing the obligation to make future payouts under the guarantee liability in excess of the stand-ready guarantee liabilities, measured using the guidance in ASC Topic 450. The ASC Topic 450 contingent component is determined on a collective basis and loans with similar risk characteristics are pooled into cohorts for purposes of measuring incurred losses. The ASC 450 contingent component is recognized as part of expense on guarantee liabilities in the consolidated statement of comprehensive income. At all times the recognized liability (including the stand ready liability and contingent liability) is at least equal to the probable estimated losses of the guarantee portfolio.

On January 1, 2020, we adopted ASC 326, Financial Instruments – Credit Losses, which requires gross accounting for guarantee liabilities. As a result, at inception of the guarantee, we will recognize both a stand-ready guarantee liability under ASC 460 with an associated financial assets receivable, and a contingent guarantee liability with an allowance for credit losses under CECL model. Subsequent to the initial recognition, the ASC 460 stand-ready guarantee is released into guarantee revenue on a straight-line basis over the term of the guarantee, while the contingent guarantee is reduced by the payouts made by us to compensate the investors upon borrowers' default. Allowance for credit losses under CECL model was included in "Provision for contingent liabilities" and revalued at each period end to reflect updated estimation for future net pay-out. In summary, we recognize the guarantee expense corresponding to the initial contingent guarantee liability at loan inception, while recognize guarantee revenue over the term of the loan. This time lag in recognizing revenue and expense under ASC326 resulted in upfront loaded expense recognition during the life cycle of the loan. For loans facilitated prior to the adoption date and still outstanding as of the adoption date, all expenses had been recognized but not all revenue had been recognized. A significant portion of guarantee revenue had been deferred to the period subsequent to the adoption date. Therefore, upon adoption, we recognized the cumulative effect of approximately RMB1.43 billion as a decrease to the opening balances of retained earnings, as of January 1, 2020, after net of tax effect.

We recognize financial assets receivable at loan inception, which is equal to the stand-ready guarantee liabilities recorded at fair value in accordance with ASC 460-10-30-2(b), and consider what premium would be required by us to issue the same guarantee service in a standalone arm's length transaction.

The fair value recognized at loan inception is estimated using a discounted cash flow model based on expected net payouts by incorporating a markup margin. We estimate our expected net payouts according to the product mix, default rates, loan terms and discount rate. The financial assets receivable is accounted for as a financial asset, and reduced upon the receipt of the service fees payment from the borrowers. At each reporting date, we estimate the future cash flows and assesses whether there is any indicator of impairment. If the carrying amounts of the financial assets receivable exceed the expected cash to be received, an impairment loss is recorded for the financial assets receivable not recoverable and is recorded in the consolidated income statement. About adoption of ASC 326, see accounting policy of "Allowance for credit losses."

Income taxes

Current income taxes are provided on the basis of net profit (loss) for financial reporting purposes, adjusted for income and expenses which are not assessable or deductible for income tax purposes, in accordance with the laws of the relevant tax jurisdictions.

Deferred income taxes are provided using assets and liabilities method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Deferred tax assets are recognized to the extent that these assets are more likely than not to be realized. In making such a determination, we consider all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation.

In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. We recognize interest and penalties, if any, under accrued expenses and other current liabilities on our consolidated balance sheet and under other expenses in our consolidated statement of operations. We did not have any significant unrecognized uncertain tax positions as of and for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022.

RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recently issued accounting pronouncements, see Note 2 to the Accountants' Report in Appendix IA to this document.

DIVIDEND POLICY

On November 15, 2021, our Board approved a quarterly cash dividend policy. Under the policy, we will declare and distribute a recurring cash dividend every fiscal quarter, starting from the third fiscal quarter of 2021, at an amount equivalent to approximately 15% to 20% of our net income after tax for such quarter. Despite a dividend policy in place, the determination to make dividend distributions and the exact amount of such distributions in any particular quarter will be based upon our operations and financial conditions, and other relevant factors, and subject to adjustment and determination by the Board.

We are a holding company incorporated in 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 Doing Business in China – We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business." See also "Regulations – Regulations on Foreign Exchange – Regulations on dividend distribution."

For ADS holders, if we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying the ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to the ADS holders in proportion to 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 this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2022, and there is no event since June 30, 2022 which would materially affect the information shown in the Accountants' Report in Appendix IA to this document.

[REDACTED] EXPENSES

[**REDACTED**] expenses consist of professional fees, [**REDACTED**] commissions, and other fees incurred in connection with the [**REDACTED**]. We estimate that our [**REDACTED**] expenses will be approximately [**REDACTED**] (equivalent to [**REDACTED**]), representing approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**] (assuming that the [**REDACTED**] is conducted at the indicative [**REDACTED**] per [**REDACTED**] of [**REDACTED**] for both Hong Kong [**REDACTED**] and [**REDACTED**] and the [**REDACTED**] is not exercised), among which (a) [**REDACTED**]-related expenses, including [**REDACTED**] commissions and other expenses, are expected to be approximately [**REDACTED**] (equivalent to [**REDACTED**]), and (b) non-[**REDACTED**]-related expenses are expected to be approximately [**REDACTED**] (equivalent to [**REDACTED**]), comprising (1) fees and expenses of legal advisers and accountants of approximately [**REDACTED**] (equivalent to [**REDACTED**]) and (2) other fees and expenses of approximately [**REDACTED**] (equivalent to [**REDACTED**]). Among the estimated aggregate amount of our [**REDACTED**] expenses, (i) approximately [**REDACTED**] (equivalent to [**REDACTED**]) is directly attributable to the [**REDACTED**] of the [**REDACTED**] and will be accounted for as a deduction from equity upon the [**REDACTED**]; and (ii) approximately [**REDACTED**] ([**REDACTED**]) has been and is expected to be recognized as expenses in our consolidated statements of operations, of which approximately [**REDACTED**] (equivalent to [**REDACTED**]) has been recognized during the Track Record Period, and the remaining of approximately [**REDACTED**] (equivalent to [**REDACTED**]) is expected to be recognized by our Group after the Track Record Period. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, we incurred [**REDACTED**] expenses of [**REDACTED**], [**REDACTED**], [**REDACTED**] (equivalent to [**REDACTED**]), [**REDACTED**] and [**REDACTED**] (equivalent to [**REDACTED**]), respectively.

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 below for the purpose of illustrating the effect of the [**REDACTED**] on the unaudited consolidated net tangible assets of the Group attributable to our ordinary shareholders as of September 30, 2022 as if the [**REDACTED**] had taken place on [**REDACTED**].

The unaudited pro forma adjusted net tangible assets of the Group attributable to our ordinary shareholders has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets of the Group attributable to our ordinary shareholders, had the [**REDACTED**] been completed as of September 30, 2022 or at any future dates. It is prepared based on the unaudited consolidated net tangible assets of the Group attributable to our ordinary shareholders as of September 30, 2022 as derived from the Unaudited Condensed Consolidated Financial Statements in Appendix IB to this document, and adjusted as described below.

	Unaudited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022	**Estimated net [REDACTED] from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ordinary share**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ordinary share**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS**
	(in thousands of RMB) (Note 1)	*(in thousands of RMB) (Note 2)*	*(in thousands of RMB)*	*RMB (Note 3)*	*RMB (Note 4)*	*HK$ (Note 5)*	*HK$ (Note 5)*
Based on the indicative [REDACTED] of [REDACTED] per [REDACTED]	[17,896,437]	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) The unaudited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022 is arrived at after deducting intangible assets attributable to ordinary shareholders of the Company of RMB[4,835,000] from the unaudited consolidated net assets of RMB[17,901,272,000] attributable to ordinary shareholders of the Company as of September 30, 2022 as extracted from the Unaudited Condensed Consolidated Financial Statements in Appendix IB to this document.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] of the [**REDACTED**] pursuant to the [**REDACTED**] are based on [**REDACTED**] at the indicative [**REDACTED**] of [**REDACTED**] per [**REDACTED**] after deduction of the estimated [**REDACTED**] and [**REDACTED**] costs (including [**REDACTED**] fees and other related expenses) expected to be incurred by the Company subsequent to September 30, 2022 and without taking into account of any [**REDACTED**] and issuance of ordinary shares upon the exercise of the [**REDACTED**], the ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of stock options or the vesting of restricted shares or other awards that have been or may be granted from time to time, any issuance or repurchase of ordinary shares and/or ADSs by the Company, including the effect of the defense mechanism pursuant to the rights agreement as disclosed in the paragraph headed "Share Capital – Defense Mechanism Against Hostile Takeovers" in this document. For the purpose of calculating the estimated net [**REDACTED**] from the [**REDACTED**], the amount denominated in Hong Kong dollars has been translated into Renminbi at the exchange rate of HK$1.00 to RMB[0.9299], which is derived from the respective exchange rate on [November 4, 2022] set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ordinary share is arrived at on the basis that [**REDACTED**] ordinary shares were in issue assuming that the [**REDACTED**] had been completed on September 30, 2022 and without taking into account any [**REDACTED**] and issuance of ordinary shares upon the exercise of the [**REDACTED**], the ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of stock options or the vesting of restricted shares or other awards that have been or may be granted from time to time, any issuance or repurchase of ordinary shares and/or ADSs by the Company, including the effect of the defense mechanism pursuant to the rights agreement as disclosed in the paragraph headed "Share Capital – Defense Mechanism Against Hostile Takeovers" in this document.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS is arrived at on the basis that one ADS represents two ordinary shares.

(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per share or per ADS, the amounts stated in Renminbi are translated into Hong Kong dollars at the exchange rate of RMB1.00 to HK$[1.0754], which is derived from the respective exchange rate on [November 4, 2022] set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company to reflect any trading result or other transactions of the Group entered into subsequent to September 30, 2022. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as shown on II-1 have not been adjusted to illustrate the effect of any dividends to be distributed as disclosed in the Note 16 "Subsequent Events" to Appendix IB in this document.

After taking into account the dividend distribution as disclosed in the Note 16 "Subsequent Events" to Appendix IB in this document, assuming that the dividend had been declared to shareholders of record as of the close of business on September 30, 2022, and the estimated net [**REDACTED**] from the [**REDACTED**] of the [**REDACTED**] pursuant to the [**REDACTED**] at the indicative [**REDACTED**] of [**REDACTED**] per [**REDACTED**], the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company would have been [**REDACTED**] and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ordinary share and per ADS would have been [**REDACTED**] and [**REDACTED**] (equivalent to [**REDACTED**] and [**REDACTED**]), respectively, assuming the amounts denominated in Renminbi could have been translated into Hong Kong dollars at the rate of RMB1.00 to HK$[1.0754] and United States dollars ("US$") could have been translated into Renminbi at the rate of US$1.00 to RMB[7.2996], which is derived from the exchange rate on [November 4, 2022] set forth in the H.10 statistical release of the U.S. Federal Reserve Board, respectively. No representation is made that Hong Kong dollars and United States dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.