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Post Hearing Information Pack of



360 DigiTech, Inc.

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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360 DigiTech, Inc.

(Incorporated in the Cayman Islands with limited liability)

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Number of [REDACTED] under : [REDACTED] (subject to the [REDACTED])
the [REDACTED]

Number of [REDACTED] : [REDACTED] (subject to [REDACTED])

Number of [REDACTED] : [REDACTED] (subject to [REDACTED] and
the [REDACTED])

Maximum [REDACTED] : [REDACTED]

Par Value : US\$0.00001 per Share

[REDACTED] : [REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full document. You should read the whole document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

WHO WE ARE TODAY

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. We bear credit risks under credit-driven services, under which we either provide guarantee services against potential default risks for the loans funded by our financial institution partners or fund certain loans through trusts and ABSs or Fuzhou Microcredit. As of June 30, 2022, the outstanding loan balance under credit-driven services was RMB67.9 billion. As of June 30, 2022, we recorded guarantee liabilities-contingent for off-balance sheet loans facilitated under credit-driven services of RMB3,320 million (US\$496 million). During the Track Record Period, our repayments to financial institution partners relating to guarantee liabilities-contingent, net of subsequent recoveries from the borrowers, were RMB2,881 million, RMB3,938 million, RMB3,337 million and RMB2,127 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

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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.

Our value proposition is to connect financial institutions and borrowers through our technology innovations, transforming credit services in a way that is more accessible to consumers and SMEs, while empowering financial institutions across different stages of the loan lifecycle. In particular, we believe our services provide substantial value to the following industry participants:

- **Financial institution partners.** We offer technology-driven services, empowering our financial institution partners with an efficient online lending process. Our technology infrastructure seamlessly integrates with those of our financial institution partners, providing them a wide range of technology solutions that collectively deliver real-time automatic borrower acquisition as well as enhanced credit screening, post-facilitation services and other aspects of operations. We avail our financial institution partners of a rapidly growing base of quality borrowers, an expanded scale of credit assets and improved risk-adjusted returns. As of June 30, 2022, we had established partnerships with a total of 133 financial institutions cumulatively, including national and regional banks and consumer finance companies which are non-banking financial institutions that provide loans to individuals for the purpose of consumption.
- **Consumers.** We target the large and growing population of consumers whose credit demands are underserved or unserved by traditional financial institutions. Such population typically has limited credit history and stable income with promising growth potentials and has great user lifetime values. However, in lack of effective measures to screen off the risk associated therewith, credit services from traditional financial institutions have not effectively penetrated this group. Leveraging our advanced technology and credit profiling capabilities, we are able to effectively identify users with low delinquency risks and convert them into borrowers, thereby enabling financial institutions to extend their borrower reach while availing these borrowers of suitable, easy-to-access financial products with sufficient lines of credit, reasonable pricing and high levels of flexibility. We believe we are chosen by our users because of our well-established industry reputation and the convenient, fast, intuitive and transparent user experience that we offer through our platform.

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- **SMEs.** Since late 2020, we have begun facilitating tailored loan products to quality SMEs. We believe this group is unserved or underserved by traditional financial institutions, which typically focus on providing services to larger enterprises with a long credit history and operating track record, and with tangible collateral for loans. Drawing on our data analytics and credit profiling capabilities, we are equipped to identify those SMEs who are less likely to carry delinquency risks despite their lack of sufficient credit records and tangible collaterals, and convert them into borrowers of our financial institution partners. The tailored products extended through our platform are flexible, collateral-free and satisfactory to the SMEs' credit needs.

Our Services

We offer diverse services to our partners and users. Our services are generally categorized into either credit-driven services or platform services based on the nature of services and the level of credit risks associated therewith. In each type of these services, regardless of the level of credit risks involved, we empower partners and users with an efficient lending/borrowing process, improved credit assessment and enhanced lending/borrowing experience.

- **Credit-driven services.** We match prospective borrowers with financial institutions and empower financial institutions in borrower acquisition, credit assessment, fund matching, and post-facilitation services. Loan products offered under this line of services are, in most cases, funded by our financial institution partners to whom we provide guarantee services against potential default risks, with the remainder extended by trusts and ABSs or Fuzhou Microcredit, which is licensed to conduct micro-lending business in China. As we provide guarantees against potential defaults or fund certain loans through trusts and ABSs or Fuzhou Microcredit, we bear credit risks under credit-driven services.
- **Platform services.** Tailoring to our financial institution partners' diverse needs, we provide customized technology solutions at different stages of the loan lifecycle, such as borrower acquisition, credit assessment and post-facilitation services. Specifically, our platform services include comprehensive loan facilitation and post-facilitation services under the capital-light model, intelligent marketing services to financial institution partners under Intelligence Credit Engine (ICE), referral services and risk management SaaS. We currently do not take credit risk under platform services. See "Business – Our Services – Platform services" for more details. For the year ended December 31, 2021 and the six months ended June 30, 2022, loans facilitated by us under platform services accounted for approximately 54.4% and 54.8% of our total loan facilitation volume, respectively.
- **Capital-light model.** Under the capital-light model, we facilitate transactions between prospective borrowers and our financial institution partners through a comprehensive suite of technology-enabled services spanning the loan lifecycle, from borrower acquisition, technology empowerment in credit assessment to post-facilitation services such as loan performance monitoring

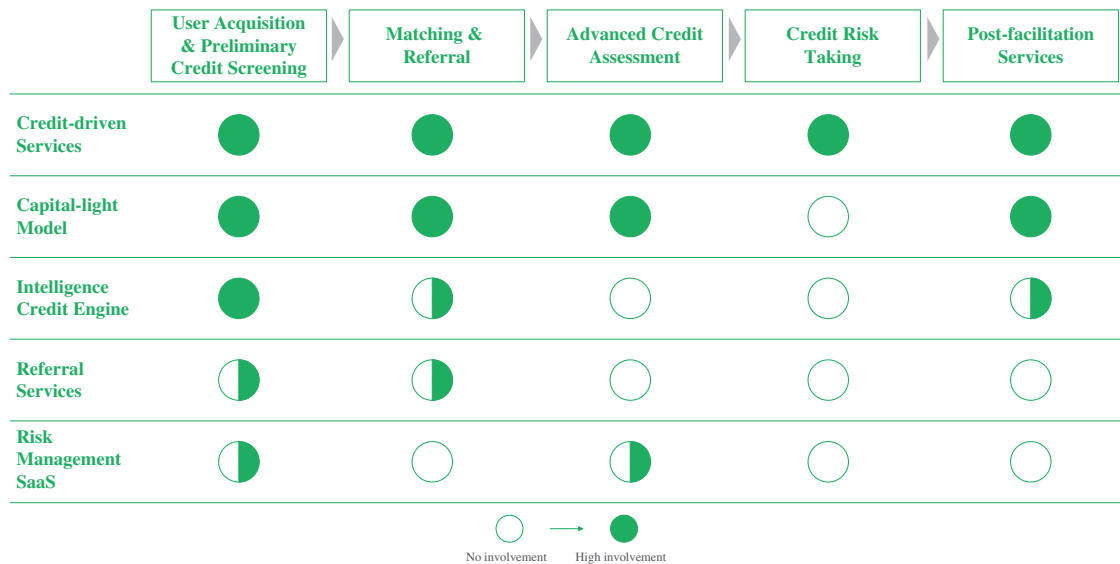
SUMMARY

and loan collection. For loans facilitated under the capital-light model, we generate income through service fees charged to financial institution partners according to pre-negotiated terms. As of June 30, 2022, we had worked with 56 financial institution partners under the capital-light model, cumulatively.

- **Intelligence Credit Engine (ICE).** ICE is an open platform that offers financial institutions intelligent marketing services. We match prospective borrowers and our financial institution partners leveraging user analytics and cloud computing technologies, and assist financial institution partners with preliminary credit screening of borrowers. We earn pre-negotiated service fees from financial institution partners and do not bear credit risks.
- **Referral services.** We refer some users on our platform who do not fit our financial institution partners' risk preference to certain online lending companies, and earn referral fees.
- **Risk management SaaS.** In 2020, we began offering financial institutions on-premise deployed, modular risk management SaaS to empower them to acquire borrowers and improve credit assessment results. Under this model, we typically take technology service fees or consulting fees for the corresponding technology solutions elected by the financial institutions.

The chart below illustrates our level of involvement spanning different stages of the loan lifecycle by service type.

Our Services



SUMMARY

The following table presents our operating data related to credit-driven services and platform services, respectively, for the years ended or as of December 31, 2019, 2020, 2021 and for the six months ended or as of June 30, 2021 and 2022:

	For the year ended/As of December 31,									For the six months ended/As of June 30,										
	2019			2020			2021			2021			2022							
	Loan facilitation volume	Ending balance	%	Loan facilitation volume	Ending balance	%	Loan facilitation volume	Ending balance	%	Loan facilitation volume	Ending balance	%	Loan facilitation volume	Ending balance	%					
	<i>(in RMB millions, except for percentages)</i>																			
Credit-driven services	171,422	86.1	58,086	80.1	177,234	71.8	62,718	68.1	162,878	45.6	64,720	45.6	75,719	46.6	59,373	50.5	89,004	45.2	67,910	45.1
Platform services	27,649	13.9	14,427	19.9	69,524	28.2	29,357	31.9	194,225	54.4	77,268	54.4	86,882	53.4	58,187	49.5	108,110	54.8	82,580	54.9
Total	199,071	100.0	72,513	100.0	246,758	100.0	92,075	100.0	357,103	100.0	141,987	100.0	162,601	100.0	117,559	100.0	197,114	100.0	150,490	100.0

In terms of accounting treatments, under credit-driven services, we either provide guarantees for loans funded by financial institution partners, which are recorded as off-balance sheet loans, or fund loans through trusts and ABSs or Fuzhou Microcredit, which are record as on-balance sheet loans. Under platform services, all loans facilitated through our platform are recorded as off-balance sheet loans. In terms of revenue recognition, we recognize financing income from on-balance sheet loans over the lifetime of the loans using effective interest method. For the off-balance sheet loans funded by financial institution partners, we recognize revenue from loan facilitation services, revenue from post-facilitation services and revenue from guarantee services (only applicable to off-balance sheet loans facilitated under credit-driven services). Please refer to “Financial Information – On-and Off-Balance Sheet Treatment of Loans” and “Financial Information – Key Line Items And Specific Factors Affecting Our Results of Operation – Net revenue” for details. 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	%		
	<i>(RMB in millions, except for percentages)</i>											
On-balance sheet loan through trusts and ABSs	9,394	13.0	7,893	8.6	13,349	9.4	9,917	8.4	15,501	10.3		
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		

SUMMARY

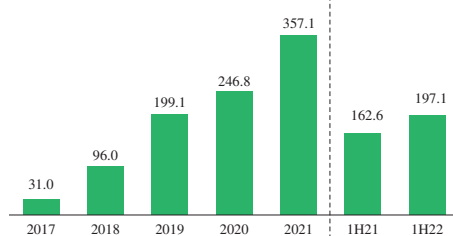
Our Business Scale

We have experienced rapid and continuous growth since inception. As of June 30, 2022, we had 41.3 million users with approved credit lines in the aggregate and had cumulatively served 25.6 million borrowers. As of June 30, 2022, we had cumulatively facilitated approximately RMB1,127.5 billion (US\$168.3 billion) of loans with an outstanding loan balance of RMB150.5 billion (US\$22.5 billion).

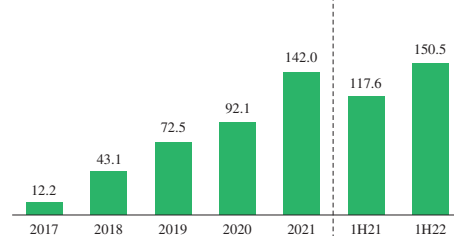
Our total net revenue increased by 47.1% from approximately RMB9.2 billion in 2019 to approximately RMB13.6 billion in 2020, and further by 22.6% to approximately RMB16.6 billion in 2021. Our total net revenue increased by 11.9% from RMB7.6 billion in the six months ended June 30, 2021 to RMB8.5 billion (US\$1.3 billion) in the same period of 2022. We generated net income of RMB2.5 billion, RMB3.5 billion, RMB5.8 billion, RMB2.9 billion and RMB2.1 billion (US\$321 million) in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

The graph below displays the loan facilitation volume, outstanding loan balance, cumulative number of users with approved credit lines, cumulative number of borrowers, total net revenue and net income from 2017 to 2021 and for the six months ended June 30, 2021 and 2022.

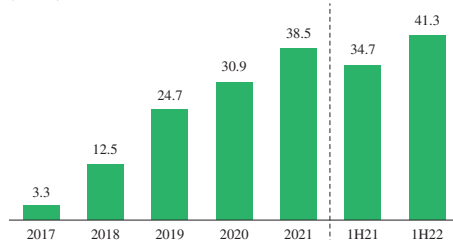
Loan Facilitation Volume
(RMB billion)



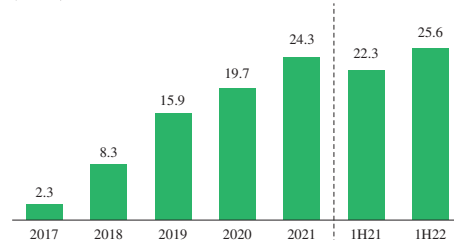
Outstanding Loan Balance
(RMB billion)



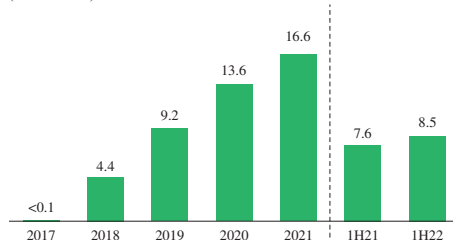
Cumulative Users with Approved Credit Lines
(million)



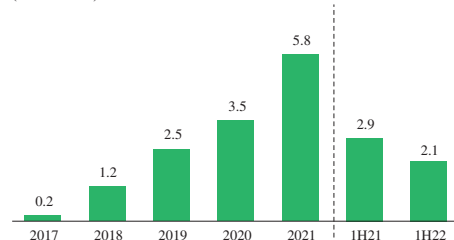
Cumulative Borrowers
(million)



Total Net Revenue
(RMB billion)



Net Income
(RMB billion)



SUMMARY

Operating Data Relating to Our Users

The table below presents the number of consumer borrowers and key features of loans for our consumer borrowers during the Track Record Period.

	For the Year ended December 31,			For the Six Months ended June 30,
	2019	2020	2021	2022
Number of Borrowers ⁽¹⁾				
(in millions)	11.6	9.9	10.2	5.3
Typical Drawdown Amount	500~	500~	500~	500~
(in RMB)	200,000	200,000	200,000	200,000
Average Single Drawdown				
Amount ⁽²⁾ (in RMB)	4,360	5,303	5,781	7,707
Typical Loan Tenor (months)	1~24	1~24	1~36	1~36
Average Loan Tenor				
(months)	7.9	9.7	10.3	11.2
Nominal APR ⁽³⁾	16.6%	15.3%	15.0%	12.9%
Effective APR ⁽⁴⁾	28.8%	27.2%	26.0%	23.0%

Notes:

- (1) “Number of Borrowers” refers to the number of borrowers who made at least one loan drawdown during the specified period.
- (2) Average single drawdown amount data excludes (i) loans facilitated under risk management SaaS, for which we do not have the relevant information of the number of borrowers and incidences of their drawdowns as these are loans approved and managed by our financial institution partners themselves, and (ii) v-pocket product, which is a virtual credit card product that allows for multiple, frequent and small-amount drawdowns and which does not represent the typical and representative loan products offered through our platform. The data for 2019 and 2020 also exclude loans facilitated under ICE which represented a relatively small portion of total loan facilitation volume and hence were not included in the average drawdown amount calculation for our business monitoring purpose.
- (3) The annualized rate for borrowing, calculated by the average monthly payment of all-in interest costs and other fees paid by borrowers, divided by the initial loan facilitation amount, multiplied by 12. The nominal APR data excludes loans facilitated under risk management SaaS and ICE.
- (4) Effective APR data for 2021 and 2022 are calculated through the IRR methodology, while those for 2019 and 2020 are not. The PBOC only disclosed the official IRR calculation methodology in March 2021 and we are not able to trace the IRR metric in 2019 and 2020. The effective APR for 2021 and 2022 is the annualized internal rate of return, or IRR, at which the net present value of all ordinary cash outflows (e.g., the principal of loans) and ordinary cash inflows (e.g., the principal repayment, the interest income, the loan facilitation service fees, and other income) from a loan or a group of loans equals zero, assuming all the cash inflows other than interest income are received at the beginning of the period. The effective APR for 2019 and 2020 is calculated as nominal APR divided by the loan duration and multiplied by the loan tenor. The effective APR data excludes loans facilitated under risk management SaaS and ICE.

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The table below presents the number of SME borrowers and key features of loans for our SME borrowers during the Track Record Period.

	For the Year ended December 31, 2021	For the Six Months ended June 30, 2022
Number of Borrowers ⁽¹⁾ (in millions)	0.4	0.3
Typical Drawdown Amount (in RMB)	500~ 1,000,000	500~ 1,000,000
Average Single Drawdown Amount ⁽²⁾ (in RMB)	19,023	23,245
Typical Loan Tenor (months)	1~36	1~36
Average Loan Tenor (months)	14.0	14.1
Nominal APR ⁽³⁾	14.5%	13.9%
Effective APR ⁽⁴⁾	23.8%	22.6%

Notes:

- (1) “Number of Borrowers” refers to the number of borrowers who made at least one loan drawdown during the specified period.
- (2) Average single drawdown amount data excludes loans facilitated under risk management SaaS, for which we do not have the relevant information of the number of borrowers and incidences of their drawdowns as these are loans approved and managed by our financial institution partners themselves.
- (3) The annualized rate for borrowing, calculated by the average monthly payment of all-in interest costs and other fees paid by borrowers, divided by the initial loan facilitation amount, multiplied by 12. The nominal APR data excludes loans facilitated under risk management SaaS and ICE.
- (4) The effective APR for 2021 and 2022 is the annualized internal rate of return, or IRR, at which the net present value of all ordinary cash outflows (e.g., the principal of loans) and ordinary cash inflows (e.g., the principal repayment, the interest income, the loan facilitation service fees, and other income) from a loan or a group of loans equals zero, assuming all the cash inflows other than interest income are received at the beginning of the period. The effective APR data excludes loans facilitated under risk management SaaS and ICE.

For more details, please refer to “Business – Our Services – Products offered to users.”

OUR CREDIT PERFORMANCE

We monitor the credit performance of loans facilitated under both credit-driven services and platform services to evaluate and improve our technology services offered to financial institution partners in preliminary credit assessment. We use 30 day+ and 90 day+ delinquency rates as key metrics to evaluate the credit performance of loans. They reflect the loans that are past due between 31 and 180 days and between 91 and 180 days, respectively, as of a specified date. With our strong credit assessment capabilities, we have been able to effectively manage the asset quality of loan portfolios and consistently achieved a relatively low delinquency rate. In addition, we view write-off ratio as a supplement to delinquency rates to evaluate the overall

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credit performance of the loan portfolios as it reflects the net write-off of loans that are past due over 180 days during a given period. We have been able to maintain a relatively low write-off ratio during the Track Record Period. Loans that are written-off and loans under Intelligent Credit Engine and other technology solutions are not included in the delinquency rate calculation. Hence, the delinquency rates and the write-off ratio should be read together to assess our credit performance. For all the loans facilitated for which we provide guarantee services and that are written off due to delinquency for over 180 days, we have made the required guarantee repayments to our financial institutions partners pursuant to the guarantee service agreements and there is no further guarantee obligation for such loans.

The table below summarizes the 30 day+ delinquency rate and 90 day+ delinquency rate for all loans facilitated through our platform, including those under credit-driven services and platform services as of the dates indicated, as well as our write-off ratios for the periods indicated.

	For the year ended/As of December 31,			For the six months ended/ As of June 30,
	2019	2020	2021	2022
30 day+ delinquency rate ⁽¹⁾	2.8%	2.5%	3.1%	4.4%
90 day+ delinquency rate ⁽²⁾	1.3%	1.5%	1.5%	2.6%
Write-off ratio ⁽³⁾	3.7%	5.3%	4.8%	6.5% ⁽⁴⁾

Notes:

- (1) 30 day+ delinquency rate is a percentage, which is equal to (i) the outstanding loan balance of on- and off-balance sheet loans facilitated by our Group that are 31 to 180 calendar days past due, divided by (ii) 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 and other technology solutions are not included in the delinquency rate calculation.
- (2) 90 day+ delinquency rate is a percentage, which is equal to (i) the outstanding loan balance of on- and off-balance sheet loans facilitated by our Group that are 91 to 180 calendar days past due, divided by (ii) 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 and other technology solutions are not included in the delinquency rate calculation.
- (3) Write-off ratio is calculated by dividing (i) net write-off in a given period, which is the total write-off amount less recovered amount, by (ii) the average of beginning and ending balance of gross loans of such period.
- (4) Annualized data for the write-off ratio for the six months ended June 30, 2022.

SUMMARY

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.

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 fiscal year 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.

Our write-off ratio increased from 3.7% in 2019 to 5.3% in 2020 primarily due to the impact of COVID-19 on the asset quality of the loan portfolios, especially in the first half of 2020 amidst the height of COVID-19 outbreak, and our write-off ratio decreased from 5.3% in 2020 to 4.8% in 2021 primarily because we have resumed normal operations and managed to deliver solid performance in asset quality of the loan portfolios. The annualized write-off ratio for the six months ended June 30, 2022 was 6.5%, compared to 4.8% in 2021, was mainly attributable to the prolonged impact of COVID-19 on the macroeconomic environment, when negatively affected borrowers’ ability to repay the overdue loan.

For more details, please refer to “Business – Credit Assessment – Our credit performance.”

OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and growth:

- Distinct competitive edge in a massive and growing market with high entry barrier;
- Strong technology and innovation capabilities;
- Robust credit assessment capabilities repeatedly validated by the market;
- Multichannel and efficient user acquisition with a broad user base;

SUMMARY

- Diversified funding sources supported by a broad network of financial institution partners; and
- Experienced management team and entrepreneurial company culture.

OUR GROWTH STRATEGIES

We intend to pursue our mission and vision and grow our business by pursuing the following strategies:

- Further penetrate the consumer Credit-Tech market;
- Advance our technology and risk management empowerment capabilities;
- Further develop our capital-light model and technology solutions;
- Strengthen our partnerships with financial institution partners; and
- Further develop our business in the SME Credit-Tech market.

RISK FACTORS

Our operations and the [REDACTED] involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to [REDACTED] in us or the value of your [REDACTED]. See "Risk Factors" for details of our risk factors, which we strongly urge you to read in full before making an [REDACTED] in our Shares. Some of the major risks we face include:

- The Credit-Tech industry is rapidly evolving, which makes it difficult to effectively assess our future prospects;
- We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business, micro-lending business, financing guarantee business and credit reporting business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be materially and adversely affected;
- The pricing of loans facilitated through our platform may be deemed to exceed interest rate limits imposed by regulations;
- We rely on our proprietary credit profiling model in assessing the creditworthiness of borrowers and the risks associated with loans. If our model is flawed or ineffective, or if we otherwise fail or are perceived to fail to manage the default risks of loans facilitated through our platform, our reputation and market share would be materially and adversely affected, which would severely impact our business and results of operations; and

SUMMARY

- If the PRC government deems that the contractual arrangements in relation to our VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

OUR SHARE CAPITAL STRUCTURE

As of the Latest Practicable Date, Mr. Zhou, the chairman of our Board, was interested in approximately 14.3% of the total share capital of the Company, representing approximately 75.0% of the aggregate voting power of our total issued and outstanding Shares, after taking into account the super-voting rights of the 39,820,586 Class B ordinary shares controlled by Mr. Zhou through Aerovane Company Limited. Each Class B ordinary share is entitled to 20 votes, and each Class A ordinary share is entitled to one vote on all matters subject to vote at a general meeting of our Company. For further details, see section headed “Share Capital”.

Unwinding of our Weighted Voting Rights Structure

Upon the [REDACTED], all the Class B ordinary shares shall be converted into Class A ordinary shares on a one-for-one basis pursuant to the conversion notice [delivered] by Aerovane Company Limited to the Company. Subsequently, no Class B ordinary shares of the Company will be issued or outstanding upon the [REDACTED].

Accordingly, immediately following the completion of the [REDACTED] and upon the conversion of all the Class B ordinary shares into Class A ordinary shares, Mr. Zhou will be interested in approximately [REDACTED]% of our total issued Shares, representing approximately [REDACTED]% of the aggregate voting power of our total issued and outstanding Shares (excluding the Shares issued and reserved for future issuance upon the exercising or vesting of awards granted under the Share Incentive Plans, and assuming the [REDACTED] is not exercised and no Shares are issued under the Share Incentive Plans). Accordingly, immediately following the completion of the [REDACTED] and upon the conversion of all the Class B ordinary shares into Shares, Mr. Zhou will be our largest shareholder upon the [REDACTED]. For more information, see sections headed “Relationship with Our Largest Shareholder” and “Major Shareholders.”

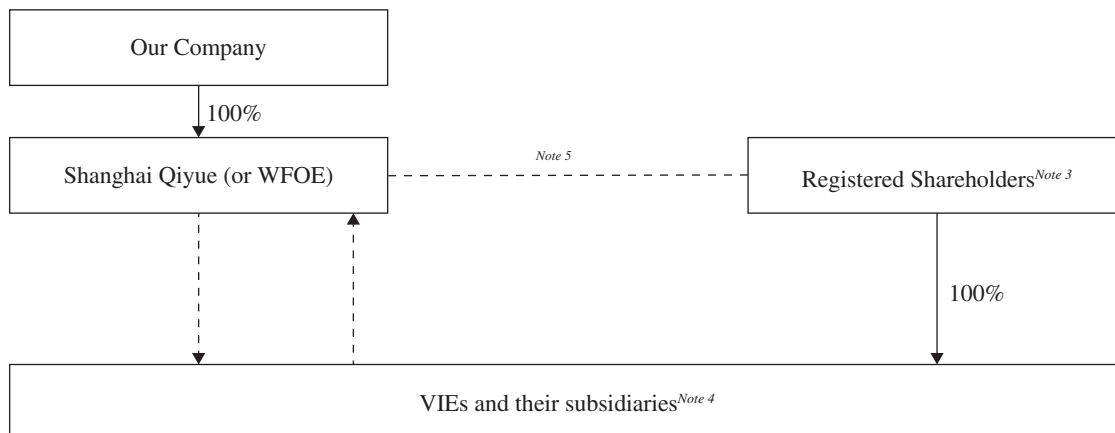
Furthermore, the Company will convene the First GM within six months after the [REDACTED] for the purpose of approving the proposals to amend and restate our Articles of Association to (a) unwind our weighted voting rights structure and (b) comply with the applicable Listing Rules. For further details, see sections headed “Waivers and Exemptions – Requirements Relating to the Articles of Association of our Company” and “Share Capital – Our Voting Structure Before and After the [REDACTED]” to this document.

SUMMARY

CONTRACTUAL ARRANGEMENTS

Our Company operates in certain industries that are subject to restrictions under current PRC laws and regulations. In order to comply with such laws, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we control our Consolidated Affiliated Entities through the Contractual Arrangements. Hence, we do not directly own any controlling equity stake in our Consolidated Affiliated Entities. Pursuant to the Contractual Arrangements, we have effective control over the financial and operational policies of our Consolidated Affiliated Entities and are entitled to all the economic benefits derived from the Consolidated Affiliated Entities’ operations. For further details, please see “Contractual Arrangements” in this document.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Company stipulated under the Contractual Arrangements:



Notes:

- (1) “—>” Equity interest
- (2) “---->” Contractual Arrangements
- (3) Registered Shareholders refer to the registered shareholders of relevant VIEs.
- (4) The VIEs refer to Shanghai Qiyu, Fuzhou Microcredit, Fuzhou Financing Guarantee and Shanghai Financing Guarantee. For details, see “Contractual Arrangements” in this document.
- (5) The Registered Shareholders executed, exclusive option agreements, equity interest pledge agreements and voting proxy agreements in favor of our WFOE in respect of the respective VIEs. For details, see “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements” in this document.

For the risks relating to the Contractual Arrangements, see the section headed “Risk Factors – Risks Related to our Corporate Structure” of this document for further details.

SUMMARY

DEFENSE MECHANISM AGAINST HOSTILE TAKEOVERS

We have implemented a defense mechanism to impede hostile takeovers through a rights agreement. On June 9, 2022, our Board declared a dividend of a right purchase to one Share (or any other share resulting from successive changes or reclassifications of the Shares) (a “**Right**”) for each of our ordinary shares outstanding at the close of business on June 17, 2022, pursuant a rights agreement.

Under the rights agreement, all outstanding ordinary shares of our Company at the close of business on June 17, 2022 have attached Rights. As long as the Rights are attached to the ordinary shares, we will issue one Right (subject to adjustment) with each new ordinary share so that all ordinary shares, including any new shares to be [REDACTED] in this [REDACTED], will have attached Rights. The Right will become exercisable if a person or a group of affiliated or associated persons (i) acquires or obtains the right to acquire (subject to certain exceptions) beneficial ownership of 10% of the outstanding ordinary shares of the Company (such person or group, an “**Acquiring Person**”) or (ii) commences a tender offer or exchange offer that would result in such person or group becoming an Acquiring Person. When exercisable, each Right will entitle the registered holder, except the Acquiring Person, to purchase from us a number of Shares (or any other share resulting from successive changes or reclassifications of the Shares), for the price of US\$36.00 (the “**Purchase Price**”), having a then-current market value of twice the Purchase Price, subject to adjustment. Rights issued to, or held by, any person or group who is, was, or becomes an Acquiring Person, whether currently held by or on behalf of such person or group or by any subsequent holder, will become null and void. As a result, the Acquiring Person (and the shareholders who choose not to exercise the Rights) will be greatly diluted if most of other existing shareholders choose to exercise the Rights, and other existing shareholders who exercise the Rights will not be diluted, thereby effectively reducing the risk of a potential hostile takeover. In the event that a person or a group of affiliated or associated persons becomes an Acquiring Person and (i) the Company engages in a merger or other business combination transaction in which the Company is not the surviving corporation, (ii) the Company engages in a merger or other business combination transaction in which the Company is the surviving corporation and the ordinary shares of the Company are changed or exchanged, or (iii) 50% or more of the Company’s assets, cash flow or earning power is sold or transferred, each Right (other than Rights held by the Acquiring Person) may thereafter entitle the holder of such Right to receive, upon exercise of the Right at the Purchase Price, ordinary shares (or capital stock, as applicable) of the acquiring company having a value equal to two times the Purchase Price of the Right.

We believe that this mechanism is beneficial to our Company as it encourages anyone seeking to acquire our Company to negotiate with our Board prior to attempting a takeover, thereby ensuring the continuity of our visionary management and strategies, minimizing potential business disruption, and enabling our Board to make more informed decisions for the benefit of our shareholders. See “Share Capital – Defense Mechanism Against Hostile Takeovers” for details.

SUMMARY

ARTICLES OF ASSOCIATION

Pursuant to Appendix 3 to the Hong Kong Listing Rules, an issuer must demonstrate how the domestic laws, rules and regulations to which it is subject and its constitutional documents, in combination, provide the shareholder protection standards set out in Appendix 3 to the Hong Kong Listing Rules (the “**Unmet Listing Rules Articles Requirements**”). Our Articles do not currently comply with some of the Listing Rules Articles Requirements, and we undertake to put forth resolutions to amend our Articles to comply with these requirements at the First GM.

Furthermore, we undertake to, at the First GM, seek shareholders’ approval to amend our Articles to (i) require a general meeting postponed by the Directors to be postponed to a specific date, time and place (the “**GM Postponement Requirement**”), and (ii) remove the shareholding structure of Class B ordinary shares and provisions related to Class B ordinary shares (the “**Class B Removal Requirement**,” together with the Unmet Listing Rules Articles Requirements and the GM Postponement Requirement, the “**Unmet Articles Requirements**”).

In addition, save for certain specified exceptions, we undertake to fully comply with the Unmet Articles Requirements (the “**Undertaking for Interim Compliance**”) upon the [REDACTED] and before our existing Articles are formally amended to incorporate the Unmet Articles Requirements. For further details, please see “Waivers and Exemptions – Requirements Relating to the Articles of Association of our Company.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information for the Track Record Period and as of the applicable period ends, extracted from the Accountants’ Report set out in Appendix IA to this document. The summary consolidated financial information set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes, as well as the section headed “Financial Information.” Our consolidated financial information was prepared in accordance with U.S. GAAP.

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB6.6981 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of June 30, 2022.

SUMMARY

Selected Consolidated Results of Operations

The following table sets forth our selected consolidated results of operations for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,					
	2019		2020		2021		2021		2022			
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%	
	<i>(Unaudited)</i>											
	<i>(in thousands, except for percentages)</i>											
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	
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	
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	
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	
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	38.2	2,159,337	322,381	25.4	

For more details, please refer to “Financial Information – Results of Operations.”

SUMMARY

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.

SUMMARY

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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(Unaudited)</i>					
	<i>(in thousands)</i>					
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)	<u>3,144,019</u>	<u>4,091,319</u>	<u>7,040,121</u>	<u>3,537,736</u>	<u>2,468,886</u>	<u>368,596</u>
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)	<u>2,751,732</u>	<u>3,796,870</u>	<u>6,018,435</u>	<u>3,021,960</u>	<u>2,248,146</u>	<u>335,639</u>

For more details, please refer to “Financial Information – Non-GAAP Financial Measures.”

SUMMARY

Net Revenue

Our revenue increased by 47.1% from RMB9,220 million in 2019 to RMB13,564 million in 2020 and by 22.6% from RMB13,564 million in 2020 to RMB16,636 million in 2021. Our 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. The continued increase in our revenue is the result of the rapid expansion of our Credit-Tech business. The adoption of ASC 326 in 2020 also partially contributed to the large increase in the amount of revenue from releasing of guarantee liabilities of RMB4,506.9 million in 2020 compared with RMB285.4 million in 2019. The amount of our total revenue derived from platform services increased by 198.4% from RMB2,160 million in 2020 to RMB6,446 million in 2021, mainly driven by the increase in the loan facilitation volume under platform services.

Operating Costs and Expenses

Operating costs and expenses increased from RMB6,326 million for 2019 to RMB9,774 million for 2020, and further to RMB9,849 million for 2021. 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 six months ended June 30, 2022. The increase in operating costs and expenses in 2020, compared to the operating costs and expenses in 2019, was primarily due to (i) the increase in provision for contingent liability due to the new accounting standards that took effect in 2020 and (ii) the increase in facilitation, origination and servicing costs due to the increase in salary and benefit expenses and collection fees, which were partially offset by the decrease in advertising and marketing-related expenses as a result of a more conservative user acquisition strategy and more effective user acquisition. The increase in operating costs and expenses in 2021, compared to the operating costs and expenses in 2020, was primarily due to the increase in sales and marketing expenses primarily as a result of a more proactive user acquisition strategy, particularly related to acquiring users with demand for high credit lines. The increase in operating costs and expenses for the six months ended June 30, 2022, compared to the operating costs and expenses for the six months ended June 30, 2021, was primarily due to (i) an increase in provision for loans receivable as a result of the growth in loan facilitation volume of on-balance sheet loans and (ii) an increase in provision for contingent liabilities due to the increase in facilitation volume of off-balance sheet loans under credit-driven services.

Income from Operations

Income from operations increased from RMB2,894 million for 2019 to RMB3,790 million for 2020, and further to RMB6,786 million for 2021. The increase in income from operations from 2019 to 2020 was primarily due to the increase in our total revenue as a result of the rapid expansion of our platform services, and partially offset by the increase in provision for contingent liabilities. The increase in income from operations from 2020 to 2021 was primarily due to the increase in our total revenue as a result of the rapid expansion of our platform services, and partially offset by the increase in marketing related expenses. Income from

SUMMARY

operations was RMB3,411 million for the six months ended June 30, 2021 and RMB2,370 million (US\$354 million) for the six months ended June 30, 2022, primarily due to the increase in sales and marketing expenses as a result of a more proactive customer acquisition strategy.

Net Income

Net income increased from RMB2,501 million in 2019 to RMB3,496 million in 2020 and further to RMB5,765 million in 2021. Net income decreased 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. The increase in net income from 2019 to 2020 was primarily due to the increase in our total revenue as a result of the rapid expansion of our platform services, and partially offset by the increase in provision for contingent liabilities. The increase in net income from 2020 to 2021 was primarily due to the increase in our total revenue as a result of the rapid expansion of our platform services, and partially offset by the increase in marketing-related expenses. The decrease in net income for the six months ended June 30, 2022 compared to the same period of 2021 was mainly attributable to the increase in marketing-related expenses.

Selected Consolidated Balance Sheets Items

The following table sets forth our assets and 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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(in thousands)</i>				
Total current assets	19,503,488	21,876,042	27,757,223	30,807,848	4,599,491
Total current liabilities	9,667,187	13,384,508	14,143,186	16,823,516	2,511,684
Net current assets	9,836,301	8,491,534	13,614,037	13,984,332	2,087,807
Total non-current assets	852,113	2,511,263	5,747,772	6,858,260	1,023,911
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	<u>7,214,730</u>	<u>9,481,090</u>	<u>15,216,609</u>	<u>17,020,978</u>	<u>2,541,165</u>

SUMMARY

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, 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 241 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.

SUMMARY

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.

Selected Consolidated Statement of Cash Flows Data

The following table presents our selected consolidated cash flow data for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2019	2020	2021	2021	2022	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(Unaudited)</i>					
	<i>(in thousands)</i>					
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	<u>2,013,596</u>	<u>3,835,850</u>	<u>6,774,266</u>	<u>6,774,266</u>	<u>8,759,947</u>	<u>1,307,826</u>
Cash, cash equivalents, and restricted cash at the end of year	<u><u>3,835,850</u></u>	<u><u>6,774,266</u></u>	<u><u>8,759,947</u></u>	<u><u>7,836,700</u></u>	<u><u>10,730,226</u></u>	<u><u>1,601,981</u></u>

SUMMARY

IMPACT OF COVID-19 AND RECENT DEVELOPMENT

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 collection operations in regions that were significantly impacted by the resurgence of COVID-19. Our provision for contingent liability also increased to RMB2,162.6 million (US\$322.9 million) for the six months ended June 30, 2022, compared to RMB1,220.6 million in the same period of 2021. 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

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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. For the three months ended September 30, 2022, the 30 day collection rate improved to 86.4% compared to 85.7% for the three months ended June 30, 2022, mainly attributable to various adjustments we implemented such as optimizing our user base by focusing on higher quality users.

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 discussed 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

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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.

Certain Key Operating Metrics as of and for the Nine Months Ended September 30, 2022

As of September 30, 2022, the number of cumulative users with approved credit lines increased to 43.0 million from 41.3 million as of June 30, 2022. The number of cumulative borrowers was 26.3 million as of September 30, 2022, compared to 25.6 million as of June 30, 2022. In addition, the cumulative number of financial institution partners with which we collaborated increased to 141 as of September 30, 2022 from 133 as of June 30, 2022.

Our total loan facilitation volume amounted to RMB307.8 billion (US\$43.3 billion) for the nine months ended September 30, 2022, representing an increase of 18.3% from RMB260.2 billion for the same period of 2021. In particular, loans facilitated by us under platform services accounted for approximately 54.7% and 56.1% of our total loan facilitation volume for the nine months ended September 30, 2021 and 2022, respectively. As of September 30, 2022, the total outstanding loan balance facilitated through our platform was RMB160.0 billion (US\$22.5 billion), representing an increase of 6.3% from RMB150.5 billion as of June 30, 2022. The 90 day+ delinquency rate of loans facilitated through our platform improved to 2.3% as of September 30, 2022, compared to 2.6% as of June 30, 2022, mainly attributable to our continued optimization of user acquisition.

Financial Results as of and for the Nine Months Ended September 30, 2022

The following sets forth a summary of our selected unaudited financial data as of and for the nine months ended September 30, 2022. Our selected unaudited financial data for the nine months ended September 30, 2022 may not be indicative of our financial results for future interim periods or for the full year ended December 31, 2022. See “Financial Information” and “Risk Factors” included elsewhere in this document for information regarding trends and other factors that may influence our results of operations.

The summary of unaudited financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations 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.

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Selected Unaudited Condensed Consolidated Statements of Operations Data for the Nine Months Ended September 30, 2022

The following table sets forth our selected unaudited condensed consolidated statement of operations data in absolute amounts and as percentages of our total net revenues for the periods presented:

	Nine months ended September 30,				
	2021		2022		
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>US\$</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>				
	<i>(unaudited)</i>				
Net revenue					
Credit-driven services	7,476,006	61.2	8,809,503	1,238,420	69.7
Loan facilitation and servicing					
fees-capital heavy	1,846,102	15.1	1,724,628	242,444	13.6
Financing income	1,468,075	12.0	2,485,871	349,458	19.7
Revenue from releasing of					
guarantee liabilities	4,088,453	33.5	4,522,107	635,708	35.8
Other services fees	73,376	0.6	76,897	10,810	0.6
Platform services	4,737,574	38.8	3,837,872	539,520	30.3
Loan facilitation and servicing					
fees-capital light	4,192,673	34.3	3,169,165	445,514	25.0
Referral services fees	442,889	3.6	468,031	65,795	3.7
Other services fees	102,012	0.9	200,676	28,211	1.5
Total net revenue	12,213,580	100.0	12,647,375	1,777,940	100.0
Operating costs and expenses⁽¹⁾					
Facilitation, origination and					
servicing	1,662,927	13.6	1,787,872	251,335	14.1
Funding costs	245,995	2.0	366,105	51,466	2.9
Sales and marketing	1,462,210	12.0	1,791,761	251,882	14.2
General and administrative	416,777	3.4	318,869	44,826	2.5
Provision for loans receivable	742,286	6.1	1,098,859	154,475	8.7
Provision for financial assets					
receivable	173,661	1.4	279,361	39,272	2.2
Provision for accounts receivable					
and contract assets	286,202	2.4	170,787	24,009	1.4
Provision for contingent					
liabilities	1,918,899	15.7	3,305,458	464,674	26.1

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	Nine months ended September 30,				
	2021		2022		
	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%
	<i>(in thousands, except for percentages)</i>				
	<i>(unaudited)</i>				
Total operating costs and expenses	6,908,957	56.6	9,119,072	1,281,939	72.1
Income from operations	5,304,623	43.4	3,528,303	496,001	27.9
Interest income, net	109,790	0.9	126,007	17,714	1.0
Foreign exchange gain (loss)	17,897	0.2	(155,241)	(21,823)	(1.2)
Other income, net	38,737	0.3	227,485	31,979	1.8
Investment gain (loss)	10,115	0.1	(8,996)	(1,265)	(0.1)
Income before income tax expense	5,481,162	44.8	3,717,558	522,606	29.4
Income taxes expense	(1,021,956)	(8.4)	(579,891)	(81,520)	(4.6)
Net income	4,459,206	36.4	3,137,667	441,086	24.8
Net (income) loss attributable to non-controlling interests	(42)	(0.0)	14,505	2,039	0.1
Net income attributable to ordinary shareholders of the Company	4,459,164	36.4	3,152,172	443,125	24.9

Note:

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

	Nine months ended September 30,		
	2021	2022	
	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(in thousands)</i>		
	<i>(unaudited)</i>		
Facilitation, origination and servicing	53,116	53,490	7,520
Sales and marketing expenses	8,933	2,409	339
General and administrative expenses	134,322	92,484	13,001
Total	196,371	148,383	20,860

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Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Net revenue

Our total net revenue increased by 3.6% from RMB12,214 million for the nine months ended September 30, 2021 to RMB12,647 million (US\$1,778 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 17.8% from RMB7,476 million for the nine months ended September 30, 2021 to RMB8,810 million (US\$1,238 million) for the same period of 2022, and the amount derived from platform services decreased by 19.0% from RMB4,738 million for the nine months ended September 30, 2021 to RMB3,838 million (US\$540 million) for the same period of 2022.

- *Loan facilitation and servicing fees.* Loan facilitation and servicing fees decreased under the credit-driven services from RMB1,846 million for the nine months ended September 30, 2021 to RMB1,725 million (US\$242 million) for the same period of 2022, primarily due to lower average pricing of the off-balance sheet loans under credit-driven services. Loan facilitation and servicing fees decreased under the platform services from RMB4,193 million for the nine months ended September 30, 2021 to RMB3,169 million (US\$446 million) for the same period of 2022, primarily due to lower loan facilitation volume and lower average pricing through the capital-light model under our platform services.
- *Financing income.* Financing income increased from RMB1,468 million for the nine months ended September 30, 2021 to RMB2,486 million (US\$349 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 RMB4,088 million for the nine months ended September 30, 2021 to RMB4,522 million (US\$636 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 RMB443 million for the nine months ended September 30, 2021 to RMB468 million (US\$66 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.

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Operating costs and expenses

Operating costs and expenses increased from RMB6,909 million for the nine months ended September 30, 2021 to RMB9,119 million (US\$1,282 million) for the same period of 2022, primarily due to the increase in provision for contingent liabilities.

- *Facilitation, origination and servicing.* Facilitation, origination and servicing costs increased from RMB1,663 million for the nine months ended September 30, 2021 to RMB1,788 million (US\$251 million) for the same period of 2022, primarily due to the increase of collection fee of RMB130 million (US\$18 million) as a result of the growth in loan facilitation volume and balance.
- *Sales and marketing.* Sales and marketing expenses increased from RMB1,462 million for the nine months ended September 30, 2021 to RMB1,792 million (US\$252 million) for the same period of 2022, primarily due to a more proactive user acquisition strategy focusing on higher quality users.
- *General and administrative.* General and administrative expenses decreased from RMB417 million for the nine months ended September 30, 2021 to RMB319 million (US\$45 million) for the same period of 2022, primarily due to lower professional service fees and our continued effort to improve operational efficiency.
- *Funding costs.* Funding costs increased from RMB246 million for the nine months ended September 30, 2021 to RMB366 million (US\$51 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 RMB742 million for the nine months ended September 30, 2021 to RMB1,099 million (US\$154 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 RMB174 million for the nine months ended September 30, 2021 to RMB279 million (US\$39 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.

SUMMARY

- *Provision for accounts receivable and contract assets.* Provision for accounts receivable and contract assets decreased from RMB286 million for the nine months ended September 30, 2021 to RMB171 million (US\$24 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 RMB1,919 million for the nine months ended September 30, 2021 to RMB3,305 million (US\$465 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.

Interest income, net

Interest income, net was RMB126 million (US\$18 million) for the nine months ended September 30, 2022, compared to RMB110 million for the same period of 2021, mainly due to the increase in net interest earned from bank deposits.

Other income, net

Other income increased from RMB39 million for the nine months ended September 30, 2021 to RMB227 million (US\$32 million) for the same period of 2022, mainly due to the increase of government grants.

Income tax expense

Income tax expense was RMB580 million (US\$82 million) for the nine months ended September 30, 2022, compared to RMB1,022 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 nine months ended September 30, 2022, compared to 18.0% for the same period of 2021.

Net income

Net income was RMB3,138 million (US\$441 million) for the nine months ended September 30, 2022, compared to RMB4,459 million for the same period of 2021.

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Selected Unaudited Condensed Consolidated Balance Sheets Data as of September 30, 2022

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of	As of September 30,	
	December 31,	2022	
	2021	2022	
	RMB	RMB	US\$
		<i>(in thousands)</i>	
		<i>(unaudited)</i>	
Current assets:			
Cash and cash equivalents	6,116,360	7,219,700	1,014,929
Restricted cash	2,643,587	3,009,630	423,087
Short term investments	–	30,000	4,217
Security deposit prepaid to third-party guarantee companies	874,886	549,548	77,254
Funds receivable from third party payment service providers	153,151	983,851	138,308
Accounts receivable and contract assets, net	3,097,254	3,109,128	437,074
Financial assets receivable, net	3,806,243	3,321,117	466,875
Amounts due from related parties	837,324	518,001	72,819
Loans receivable, net	9,844,481	14,002,507	1,968,441
Prepaid expenses and other assets	383,937	534,340	75,116
Total current assets	<u>27,757,223</u>	<u>33,277,822</u>	<u>4,678,120</u>

	As of	As of September 30,	
	December 31,	2022	
	2021	2022	
	RMB	RMB	US\$
		<i>(in thousands)</i>	
		<i>(unaudited)</i>	

Current liabilities:

Payable to investors of the consolidated trusts-current	2,304,518	6,173,089	867,799
Accrued expenses and other current liabilities	2,258,329	2,267,693	318,787
Amounts due to related parties	214,057	203,324	28,583
Short term loans	397,576	639,764	89,937

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	As of	As of September 30,	
	December 31,		
	2021	2022	
	RMB	RMB	US\$
		<i>(in thousands)</i>	
		<i>(unaudited)</i>	
Guarantee liabilities-stand ready	4,818,144	4,385,117	616,450
Guarantee liabilities-contingent	3,285,081	3,404,333	478,574
Income tax payable	624,112	683,342	96,063
Other tax payable	241,369	186,270	26,185
Total current liabilities	14,143,186	17,942,932	2,522,378
Net current assets	13,614,037	15,334,890	2,155,742

The following table sets forth our non-current assets and non-current liabilities as of the dates indicated.

	As of	As of September 30,	
	December 31,		
	2021	2022	
	RMB	RMB	US\$
		<i>(in thousands)</i>	
		<i>(unaudited)</i>	
Non-current assets:			
Accounts receivable and contract assets, net-noncurrent	223,474	298,161	41,915
Financial assets receivable, net-noncurrent	597,965	755,977	106,274
Amounts due from related parties	140,851	72,245	10,156
Loans receivable, net-noncurrent	2,859,349	3,289,501	462,431
Property and equipment, net	24,941	25,170	3,538
Land use rights, net	1,018,908	1,003,366	141,051
Intangible assets	4,961	4,835	680
Deferred tax assets	834,717	1,170,598	164,560
Other non-current assets	42,606	64,702	9,097
Total non-current assets	5,747,772	6,684,555	939,702

SUMMARY

	As of	As of September 30,	
	December 31,	2022	
	2021	RMB	US\$
	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
		<i>(in thousands)</i>	
		<i>(unaudited)</i>	
Non-current liabilities:			
Deferred tax liabilities	121,426	196,517	27,626
Payable to investors of the consolidated trusts-noncurrent	4,010,597	3,802,348	534,526
Other long-term liabilities	13,177	31,067	4,366
Total non-current liabilities	4,145,200	4,029,932	566,518
Non-controlling interests	12,746	88,241	12,405
TOTAL EQUITY	15,216,609	17,989,513	2,528,926

Our net assets increased from RMB15,217 million as of December 31, 2021 to RMB17,990 million (US\$2,529 million) as of September 30, 2022, primarily due to our net income of RMB3,138 million (US\$441 million) generated for the nine months ended September 30, 2022, partially offset by the dividends distributions of RMB683 million (US\$96 million) to shareholders.

Our net current assets increased from RMB13,614 million as of December 31, 2021 to RMB15,335 million (US\$2,156 million) as of September 30, 2022 primarily due to an increase of RMB5,521 million (US\$776 million) in our total current assets mainly attributable to an increase of RMB4,158 million (US\$585 million) in net loans receivable and an increase of RMB1,103 million (US\$155 million) in cash and cash equivalents, partially offset by an increase of RMB3,800 million (US\$534 million) in our total current liabilities mainly attributable to an increase of RMB3,869 million (US\$544 million) in payable to investors of the consolidated trusts-current.

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Selected Unaudited Condensed Consolidated Statement of Cash Flows Data

The following table presents our selected consolidated cash flow data for the periods indicated.

	Nine months ended September 30,		
	2021	2022	
	RMB	RMB	US\$
		<i>(in thousands)</i>	
		<i>(unaudited)</i>	
Summary Consolidated Cash Flow Data:			
Net cash provided by operating activities	3,778,316	4,130,038	580,590
Net cash (used in) investing activities	(5,718,813)	(5,675,628)	(797,867)
Net cash provided by financing activities	1,806,770	3,010,269	423,176
Effect of foreign exchange rate changes	(2,709)	4,704	663
Net (decrease) increase in cash and cash equivalents	(136,436)	1,469,383	206,562
Cash, cash equivalents, and restricted cash at the beginning of period	6,774,266	8,759,947	1,231,454
Cash, cash equivalents, and restricted cash at the end of period	6,637,830	10,229,330	1,438,016

Operating activities

Net cash provided by operating activities was RMB4,130 million (US\$581 million) for the nine months ended September 30, 2022. The difference between net cash provided by operating activities and the net income of RMB3,138 million (US\$441 million) mainly resulted from (i) adding back non-cash item share-based compensation of RMB148 million (US\$21 million), (ii) adding back non-cash item provision for loans receivable, financial assets receivables and other receivables of RMB1,549 million (US\$218 million) and (iii) adding back non-cash item provision for contingent liabilities of RMB3,305 million (US\$465 million), partially offset by additional RMB4,226 million (US\$595 million) used for working capital. The change in cash used for working capital was mainly a result of a RMB3,619 million (US\$509 million) increase in guarantee liabilities. The increase of these working capital items was the result of our rapid expansion of business.

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Investing activities

Net cash used in investing activities was RMB5,676 million (US\$798 million) for the nine months ended September 30, 2022, which was primarily attributable to investment in loans receivable of RMB41,317 million (US\$5,808 million), partially offset by the collection of investment in loans receivable of RMB35,696 million (US\$5,018 million). The net outflow of loans investment mainly resulted from the growth of on-balance sheet lending.

Financing activities

Net cash provided by financing activities was RMB3,010 million (US\$423 million) for the nine months ended September 30, 2022, which was primarily attributable to RMB6,817 million (US\$958 million) cash received from investors of the consolidated trusts and RMB190 million (US\$27 million) received from short-term loans, partially offset by cash paid to investors of the consolidated trusts of RMB3,209 million (US\$451 million) and dividend paid to shareholders of RMB784 million (US\$110 million).

Recent Regulatory Developments

Information security and privacy protection

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021 and introduces a data classification and hierarchical protection system based on a number of factors. On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), which became effective on November 1, 2021 and provides important concepts with respect to personal information processing, including “personal information,” “processing of personal information,” and “personal information processor.” On July 7, 2022, the CAC published Outbound Data Transfer Security Assessment Measures (《數據出境安全評估辦法》), which took effect on September 1, 2022 and outline the potential security assessment process for outbound data transfer. On November 14, 2021, the CAC released the Draft Regulations on Network Data Security (《網絡數據安全管理條例(徵求意見稿)》), which provide for several circumstances under which a cybersecurity review will be imposed on a data processor. On December 28, 2021, the CAC, the NDRC, the MIIT, and several other PRC governmental authorities jointly issued the Measures for Cybersecurity Review(2021 Revision) (《網絡安全審查辦法》(2021版)), which became effective on February 15, 2022 and require critical information infrastructure operators (“**CIIO**”) to apply for cybersecurity review if they procure internet products and services that affect or may affect national security. The Measures for Cybersecurity Review (2021 Revision) also stipulate that network platform operators holding over one million users’ personal information shall apply with the Cybersecurity Review Office for a cybersecurity review before listing on a foreign stock exchange (國外上市). Although our Group possesses personal information of over one million users, based on the consultation with China Cybersecurity Review Technology and Certification Center, which is delegated by the CAC with the authority to address public inquiries relating to the cybersecurity review under the Measures for Cybersecurity Review

SUMMARY

(2021 Revision), a listing in Hong Kong is not deemed as “listing on a foreign stock exchange” (國外上市) under the Measures for Cybersecurity Review (2021 Revision) and we are not required to proactively apply for a cybersecurity review as stated in Article 7 thereof. Furthermore, pursuant to the Measures for Cybersecurity Review (2021 Revision), the Cybersecurity Review Office under the CAC, with the approval of the CAC, may initiate the cybersecurity review against the relevant operators if the relevant authorities believe that the network products or services or data processing activities of such operators affect or may affect national security. The Article 10 of the Measures for Cybersecurity Review (2021 Revision) provides the key factors that the CAC would consider when assessing the national security risks of the relevant activities in the cybersecurity review. See “Regulatory Overview – Regulations on Information Security and Privacy Protection” for more details.

As of the Latest Practicable Date, (i) we had not been notified by any PRC government authorities of being classified as a CIIO so we do not have to apply for the cybersecurity review which is applicable for CIIOs that procure internet products and services that affect or may affect national security; and (ii) we have not received any inquiry, notice, warning from any PRC government authorities, and have not been subject to any investigation, sanctions or penalties made by any PRC government authorities regarding national security risks caused by our business operations or the [REDACTED]. Furthermore, as to the factors set out in Article 10 of the Measures for Cybersecurity Review (2021 Revision), (i) we have not been identified as a CIIO by any relevant authority, and therefore, as advised by our PRC Legal Adviser, items (i) to (iv) of Article 10 of the Measures for Cybersecurity Review (2021 Revision) do not apply to us; (ii) as of the Latest Practicable Date, based on the public search of our PRC Legal Adviser and to the best knowledge of us, no data processed by us has been included into the effective catalogue of important data or core data published by the relevant authority. In addition, we have formulated a Management System of Data Protection and dedicated significant resources to ensure data security. See “Business – Risk Management and Internal Control – Data and technology system risk management” and “Business – Technology & Security.” During the Track Record Period, no data leakage from our Company occurred. Therefore, our PRC Legal Adviser is of the view that the possibility of “risk of theft, leakage or damage of core data, important data or a large amount of personal information, or illegal use of such information or illegal exit of such information” under item (v) of Article 10 of the Measures for Cybersecurity Review (2021 Revision) is remote for us up to the date of this document; and (iii) as advised by our PRC Legal Adviser, based on the consultation with China Cybersecurity Review Technology and Certification Center, item (vi) of Article 10 does not apply to us because [REDACTED] in Hong Kong should not be deemed as listing on a foreign stock exchange. Based on the foregoing, our Directors and our PRC Legal Adviser are of the view that the likelihood of our business operations or the [REDACTED] being deemed as affecting national security based on the factors set out in Article 10 of the Measures for Cybersecurity Review (2021 Revision) is remote.

SUMMARY

The Draft Regulations on Network Data Security, stipulate that data processing activities carried out through networks as well as the supervision and regulation of network data security within the territory of the PRC should be subject to the Draft Regulations on Network Data Security. As we operate the 360 Jietiao app in China to provide information and technology services to financial institution partners, consumers and SMEs, our PRC Legal Adviser is of the view that the Draft Regulations on Network Data Security may be applicable to us if they are implemented in their current form. As of the Latest Practicable Date, we had neither been and involved in any investigations on cybersecurity review conducted by the CAC nor received any warning or sanctions in this regard. In addition, we have adopted internal measures regarding data security and personal information protection to ensure compliance with relevant laws and regulations.

Based on the foregoing, our Directors and our PRC Legal Adviser are of the view that we would be able to comply with the Draft Regulations on Network Data Security and the Measures for Cybersecurity Review (2021 Revision) in all material aspects and the Draft Regulations on Network Data Security and the Measures for Cybersecurity Review (2021 Revision) will not have any material adverse effect on our business operations or the [REDACTED], assuming the Draft Regulations on Network Data Security are fully adopted and implemented in the current form.

Having taken into account the views of our Directors and our PRC Legal Adviser, which are concurred by the PRC legal adviser of the Joint Sponsors, and based on the independent due diligence work conducted by the Joint Sponsors, nothing material has come to the attention of the Joint Sponsors, who are not legal experts, that would cause them to question the views of our Directors and our PRC Legal Adviser that the Draft Regulations on Network Data Security and the Measures for Cybersecurity Review (2021 Revision) will not have any material adverse effect on our business operations or the [REDACTED], assuming the Draft Regulations on Network Data Security are fully adopted and implemented in the current form.

However, given the Measures for Cybersecurity Review (2021 Revision) were recently promulgated, and the Draft Regulations on Network Data Security have not come into effective as of the Latest Practicable Date, there are uncertainties as to the interpretation, application and enforcement of the Measures for Cybersecurity Review (2021 Revision) and the Draft Regulations on Network Data Security. We will closely monitor the legislative process and seek guidance from relevant regulatory authorities in a timely manner to ensure our compliance with relevant laws and regulations applicable to us.

Overseas listings

On December 24, 2021, the CSRC issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》), or the Draft Provisions, and a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》), or the Draft Administration Measures, for public comments. The Draft

SUMMARY

Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. See "Regulatory Overview – Overseas Listings" for more details.

Based on the public search conducted by our PRC Legal Adviser and to the best of our knowledge, our proposed [REDACTED] does not fall within any of the forbidden circumstances under the Draft Provisions and the Draft Administrative Measures as of the Latest Practicable Date. Therefore, if the Draft Provisions and the Draft Administrative Measures become effective in their current form, subject to the specific filing procedures expected to be detailed in the subsequent implementation rules, we do not foresee any material impediment for us to comply with the Draft Provisions and the Draft Administrative Measures. In addition, during the Track Record Period and up to the Latest Practicable Date, we had not received any warning, sanctions, or any regulatory objection regarding the [REDACTED] or our Contractual Arrangements from the CSRC or any other PRC government authorities that have jurisdiction over our operations.

Based on the foregoing, our PRC Legal Adviser is of the view that the Draft Provisions and the Draft Administrative Measures allow PRC domestic companies with a VIE structure which complies with applicable PRC laws and regulations to conduct overseas offerings and listings, and do not raise additional compliance requirements for business operations of such PRC companies. Based on the foregoing analysis, with the advice of our PRC Legal Adviser, our Directors do not foresee the Draft Provisions and the Draft Administrative Measures, should they become effective in their current forms, would have a material adverse impact on our ability to operate our business under the Contractual Arrangements.

As advised by our PRC Legal Adviser, there is no explicit PRC laws and regulations which prohibit us from [REDACTED] and [REDACTED] on an overseas stock exchange. Based on the foregoing, our Directors and PRC Legal Adviser are of the view that assuming the Draft Provisions and the Draft Administrative Measures are adopted in their current forms, as long as we comply with all relevant legal requirements, take all necessary steps, and submit all relevant materials in accordance with the Draft Provisions and the Draft Administrative Measures, there is not any material legal impediment in obtaining the approval from and completing the filing procedure with the CSRC for the [REDACTED]. However, as advised by our PRC Legal Adviser, there are uncertainties as to the implementation and interpretation of these draft regulations. The period for which the CSRC solicits comments on these drafts ended on January 23, 2022. As of the Latest Practicable Date, the Draft Provisions and Draft Administrative Measures are still in draft form and there is no schedule for the adoptions of such drafts, and it remains unclear whether the versions adopted will have any further material changes. Currently, in relation to the Draft Provisions and Draft Administrative Measures, we are not required to conduct any filing with any authorities or comply with any approval or verification for the [REDACTED]. There remain uncertainties about how these drafts will be enacted, interpreted or implemented and how they will affect the [REDACTED].

SUMMARY

The Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act, or the HFCAA, was enacted on December 18, 2020. The HFCAA states that if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB, which may impact our ability to remain listed on a United States or other foreign exchange.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, and our auditor is subject to this determination. In May 2022, the SEC conclusively listed 360 DigiTech, Inc. as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. In accordance with the HFCAA, our securities will be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States in 2024 if the PCAOB is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in China, or in 2023 if proposed changes to the law, or the Accelerating Holding Foreign Companies Accountable Act, are enacted. As a result, the Nasdaq may determine to delist our securities.

Our Directors are of the view that the listing of 360 DigiTech, Inc. as a Commission-Identified Issuer by the SEC for the first time in May 2022 does not have an immediate impact on our status as a company listed on the Nasdaq, the [REDACTED] and our business operations. However, the related risks and uncertainties could cause the value of the ADSs to significantly decline.

On August 26, 2022, the PCAOB signed a Statement of Protocol with the CSRC and the Ministry of Finance, taking the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. For more details, see "Risk Factors – Risks Related to Doing Business in China – The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our [REDACTED] with the benefits of such inspections" and "Risk Factors – Risks Related to Doing Business in China – The ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or completely investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your [REDACTED]."

SUMMARY

Compliance practice of financial technology platforms

In April 2021, we and 12 other major financial technology platforms were invited to meet with the PBOC, the CBIRC, the CSRC, the SAFE and other financial regulators to discuss the operations and compliance practice of these platforms’ internet financial businesses in China. We have been making rectifications and adjustments to our operations to address the issues discussed during the meeting and results of our self-examination according to the guidance provided by the regulators. As of the Latest Practicable Date, we have substantially completed most of the rectification measures based on our self-examination results according to the guidance provided by the relevant authorities. The regulatory authorities have reviewed our rectification measures in general. As a result, we have moved on to the regular regulatory supervision status (常態化監管階段) from the self-examination and rectification status (自查整改階段) according to the guidance provided by the regulatory authorities. Our rectification results remain subject to the regulators’ regular supervision, and we cannot assure you that the measures we have taken and rectifications we have made will satisfy the requirements from the regulators. For more details, see “Risk Factors – Risks Related to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected.”

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.

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 our Board.

SUMMARY

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 “Regulatory Overview – 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 underlying Shares represented by the ADSs to the depositary, as the registered holder of such Shares, and the depositary then will pay such amounts to the ADS holders in proportion to the underlying Shares represented by 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.

THE [REDACTED]

The ADSs, each representing two Share, have been listed and begun trading on the Nasdaq Global Market under the symbol “QFIN” since December 14, 2018. On November 19, 2020, the ADSs were transferred from the Nasdaq Global Market to, and began trading on, the Nasdaq Global Select Market. We have applied for a [REDACTED] of our Shares on the Main Board pursuant to Rule 8.05(1) and Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules. [REDACTED] in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Shares will be [REDACTED] on the Hong Kong Stock Exchange in [REDACTED] of [REDACTED] Shares. For additional information, see “Information about This Document and the [REDACTED].”

WAIVERS AND EXEMPTIONS

As we are applying for [REDACTED] under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of the financial statements as well as certain other continuing obligations. In addition, in connection with the [REDACTED], we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the SFO and a ruling under the Takeovers Code. For additional information, see “Waivers and Exemptions.”

We enjoy exemptions from certain obligations under U.S. securities law and Nasdaq rules as a foreign private issuer as defined under the U.S. Exchange Act. [REDACTED] should exercise care when [REDACTED] in our Shares and/or ADSs. See “Information about the [REDACTED] – Summary of Exemptions as a Foreign Private Issuer in the U.S.”

SUMMARY

[REDACTED]

SUMMARY

[REDACTED]

[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] expenses, including [REDACTED] commissions and other expenses, are expected to be approximately [REDACTED] (equivalent to [REDACTED]), and (b) [REDACTED] 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

SUMMARY

issue 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] (equivalent to [REDACTED]), [REDACTED] and [REDACTED] (equivalent to [REDACTED]), respectively.

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately [REDACTED] based on an indicative [REDACTED] of [REDACTED] per [REDACTED] and assuming no exercise of the [REDACTED], or [REDACTED] if the [REDACTED] is exercised in full, after deducting estimated [REDACTED] discounts and commissions and estimated [REDACTED] expenses payable by us.

In line with our strategies, we plan to use the net [REDACTED] of the [REDACTED] for the following purposes:

- approximately [REDACTED] (approximately [REDACTED], assuming the [REDACTED] is not exercised) is expected to be used over the course of the next 3 years for research and development to enhance our technology and credit assessment capabilities, and develop more diversified technology solutions in response to the evolving needs of financial institutions and fine-tune our services and solutions;
- approximately [REDACTED] (approximately [REDACTED], assuming the [REDACTED] is not exercised) is expected to be used over the course of the next 3 years for further penetrating the Credit-Tech Industry and expanding user base; and
- approximately [REDACTED] (approximately [REDACTED], assuming the [REDACTED] is not exercised) is expected to be used over the course of the next 3 years for general corporate purposes and working capital needs.

To the extent that the net [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we will place such funds as short term deposits with authorized financial institutions and licensed banks, so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

See "Use of [REDACTED]" for further details.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2018 Plan”	the share incentive plan our Company adopted in May 2018, as amended from time to time, the principal terms of which are set out in “Directors and Senior Management – Compensation – Share Incentive Plans”
“2019 Plan”	the share incentive plan our Company adopted in November 2019, as amended from time to time, the principal terms of which are set out in “Directors and Senior Management – Compensation – Share Incentive Plans”
“360 Group”	360 Security Technology Inc. (三六零安全科技股份有限公司) and its controlled affiliates and predecessors
“Accountants’ Report”	the accountants’ report of our Company, the text of which is set out in Appendix IA to this document
“ADS(s)”	American Depositary Shares (each representing two Shares)
“AFRC”	Accounting and Financial Reporting Council of Hong Kong
“AI”	artificial intelligence
“Articles” or “Articles of Association”	our second amended and restated memorandum and articles of association of the Company, as adopted by a special resolution passed on October 22, 2018 and effective on December 14, 2018, as amended from time to time, a summary of which is set out in Appendix III to this document
“Board”	the board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong or other relevant jurisdictions are generally open for business
“BVI”	British Virgin Islands
“CAC”	the Cyberspace Administration of China (國家互聯網信息辦公室)

DEFINITIONS

“Cayman Companies Act” or “Companies Act”	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBRC”	China Banking Regulatory Commission (中國銀行監督管理委員會)

[REDACTED]

DEFINITIONS

“China” or “the PRC”	the People’s Republic of China, excluding, for the purposes of this document only, Taiwan and the special administrative regions of Hong Kong and Macau, except where the context otherwise requires
“Class A ordinary shares”	Class A ordinary shares in the share capital of our Company with a par value of US\$0.00001 each, giving a holder of a Class A ordinary share one vote per share on any resolution tabled at our Company’s general meeting
“Class B ordinary shares”	Class B ordinary shares in the share capital of our Company with a par value of US\$0.00001 each, conferring weighted voting rights in our Company such that a holder of a Class B ordinary share is entitled to 20 votes per share on any resolution tabled at our Company’s general meeting, all of which shall be converted to Class A ordinary shares on a one-for-one basis upon the [REDACTED] pursuant to the conversion notice [delivered] by the relevant shareholder which will take effect upon [REDACTED]
“CNNIC”	China Internet Network Information Center (中國互聯網絡信息中心)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company,” “our Company,” “360 DigiTech,” “we,” “our” or “us”	360 DigiTech, Inc. (formerly known as 360 Finance, Inc.), an exempted company incorporated in the Cayman Islands on April 27, 2018 with limited liability and, where the context requires, its subsidiaries and consolidated affiliated entities from time to time
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely, Shanghai Qiyu, Fuzhou Microcredit, Fuzhou Financing Guarantee and Shanghai Financing Guarantee and their respective subsidiaries (each a “Consolidated Affiliated Entity”), details of which are set out in the section headed “Contractual Arrangements”

DEFINITIONS

“COVID-19”	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deposit Agreement”	the deposit agreement, dated December 13, 2018, as amended or supplemented from time to time, among us, The Bank of New York Mellon and the ADS holders and beneficial owners from time to time
“Director(s)”	director(s) of our Company
“DTC”	The Depository Trust Company or its successor
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), promulgated on March 16, 2007 and came into effect on January 1, 2008 and was most recently amended on December 29, 2018 which became effective on the same date
“Extreme Conditions”	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the [REDACTED] or the [REDACTED]
“First GM”	the first general meeting to be convened by us within six months after the [REDACTED] to put forth for voting, amongst others, the amended Articles of Association to be adopted by our Company
“Foreign Investment Law”	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), promulgated by the NPC in March 2019, which became effective on January 1, 2020
“foreign private issuer”	as such term is defined in Rule 3b-4 under the U.S. Exchange Act
“Fuzhou Financing Guarantee”	Fuzhou 360 Financing Guarantee Co., Ltd. (福州三六零融資擔保有限公司), a company established under the laws of PRC on June 29, 2018 and one of our Consolidated Affiliated Entities

DEFINITIONS

“Fuzhou Microcredit” Fuzhou 360 Online Microcredit Co., Ltd. (福州三六零網絡小額貸款有限公司), a company established under the laws of PRC on March 30, 2017 and one of our Consolidated Affiliated Entities

“GAPP” the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署)

[REDACTED]

“Group,” “our Group,” “the Group,” “we,” “us,” or “our” our Company, subsidiaries and consolidated affiliated entities from time to time

“HK Qirui” HK Qirui International Technology Company Limited, a company incorporated in Hong Kong on June 14, 2018 and a wholly-owned subsidiary of our Company

“HK\$” or “Hong Kong dollars” or “HK dollars” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong” or “HK” the Hong Kong Special Administrative Region of the PRC

“Hong Kong Listing Rules” the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time

[REDACTED]

DEFINITIONS

[REDACTED]

“Hong Kong Stock Exchange” The Stock Exchange of Hong Kong Limited

[REDACTED]

“ICP License” the value-added telecommunications business operating license (增值電信業務經營許可證) for internet information service

“independent third party(ies)” person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected person of our Company

[REDACTED]

DEFINITIONS

[REDACTED]

“IT” information technology

[REDACTED]

“Joint Policy Statement” the Joint Policy Statement Regarding the Listing of Overseas Companies jointly issued by the Hong Kong Stock Exchange and the SFC on September 27, 2013 and amended on April 30, 2018

“Joint Sponsors” the Joint Sponsors of the [REDACTED] of the Shares on the Main Board of the Hong Kong Stock Exchange as named in “Directors and Parties Involved in the [REDACTED]”

“Latest Practicable Date” November 9, 2022, being the latest practicable date prior to the date of this document for the purpose of ascertaining certain information contained in this document

[REDACTED]

“Listing Committee” the Listing Committee of the Hong Kong Stock Exchange

[REDACTED]

DEFINITIONS

“M&A Rules”	the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	our memorandum of association adopted by a special resolution passed on October 22, 2018 and effective on December 14, 2018 (as amended from time to time), a summary of which is set out in Appendix III to this document
“MIIT” or “MII”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), and its predecessor known as the Ministry of Information Industry of the PRC (中華人民共和國信息產業部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易合作部)
“MPS”	Ministry of Public Security of the PRC (中華人民共和國公安部)
“Mr. Zhou”	Mr. Hongyi Zhou, our Director and chairman of the Board
“Nasdaq”	The Nasdaq Stock Market
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Negative List (2021)”	the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單) (2021年版)》), most recently jointly promulgated by the MOFCOM and the NDRC, on December 27, 2021 and became effective on January 1, 2022, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“NPC” the National People’s Congress of the PRC (全國人民代表大會)

[REDACTED]

“PBOC” the People’s Bank of China (中國人民銀行)

“PCAOB” the Public Company Accounting Oversight Board (United States)

“PRC Company Law” the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time

“PRC Legal Adviser” Commerce & Finance Law Offices, our legal adviser as to the laws of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Qualifying Issuer”	has the meaning given to it under chapter 19C of the Hong Kong Listing Rules
“Registered Shareholder(s)”	the registered shareholders of the Consolidated Affiliated Entities from time to time; the current registered shareholders are identified in the section headed “Contractual Arrangements”
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share unit(s)
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
“SAFE Circular 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014

DEFINITIONS

“SAIC” or “SAMR”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as the PRC State Administration for Market Regulation (中華人民共和國國家市場監督管理總局)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (全國人民代表大會常務委員會)
“SEC”	the United States Securities and Exchange Commission
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shanghai Financing Guarantee”	Shanghai 360 Financing Guarantee Co., Ltd. (上海三六零融資擔保有限公司) (now known as Shanghai Qiyaoxin Technology Co., Ltd. (上海琦曜信技術有限公司)), a company established under the laws of PRC on May 20, 2019 and one of our Consolidated Affiliated Entities
“Shanghai Qibutianxia”	Shanghai Qibutianxia Information Technology Co., Ltd. (上海奇步天下信息技術有限公司) (formerly known as Beijing Qibutianxia Technology Co., Ltd. (北京奇步天下科技有限公司)), a company established under the laws of PRC on November 28, 2006 and one of the Registered Shareholders.
“Shanghai Qiyu”	Shanghai Qiyu Information & Technology Co., Ltd. (上海淇毓信息科技有限公司), a company established under the laws of PRC on July 25, 2016 and one of our Consolidated Affiliated Entities
“Share(s)”	the Class A ordinary shares of our Company
“shareholder(s)”	holder(s) of Shares and, where the context requires, ADSs
“Share Incentive Plans”	the 2018 Plan and the 2019 Plan, details of which are set out in the section headed “Directors and Senior Management – Compensation – Share Incentive Plans”
“Significant Subsidiaries”	our subsidiaries and consolidated affiliated entities as identified in “History and Corporate Structure – Significant Subsidiaries and Operating Entities”

DEFINITIONS

“STA” State Taxation Administration of the PRC (中華人民共和國國家稅務總局)

[REDACTED]

“subsidiaries” has the meaning ascribed thereto in the Hong Kong Listing Rules

“Takeovers Codes” the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC

“Track Record Period” the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022

[REDACTED]

“US\$” or “U.S. dollars” United States dollars, the lawful currency of the United States

“U.S.” or “United States” the United States of America, its territories, its possessions and all areas subject to its jurisdiction

“U.S. Exchange Act” the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder

“U.S. GAAP” accounting principles generally accepted in the United States

DEFINITIONS

“U.S. Holder”	a beneficial owner of our Shares or ADSs that is, for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the laws of the United States or any state thereof or the District of Columbia; (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or (iv) a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the U.S. Internal Revenue Code of 1986, as amended
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“variable interest entities,” “VIE” or “VIEs”	our variable interest entities, the financial results of which are consolidated into our consolidated financial statements as if they were our subsidiaries
“VAT”	value-added tax; all amounts are exclusive of VAT in this document except where indicated otherwise
“VIE structure” or “Contractual Arrangements”	variable interest entity structure and, where the context requires, the agreements underlying the structure
“WFOE” or “Shanghai Qiyue”	Shanghai Qiyue Information & Technology Co., Ltd. (上海淇玥信息技術有限公司), a company established under the laws of PRC on August 7, 2018 and a wholly-owned subsidiary of our Company

[REDACTED]

DEFINITIONS

In this document, the terms “associate(s),” “close associate(s),” “controlling shareholder(s),” “connected person(s),” “connected transactions(s),” “core connected person(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this document in connection with us and our business. These may not correspond to standard industry definitions, and may not be comparable to similarly terms adopted by other companies.

"180 day+ vintage delinquency rate"	a percentage, which is equal to (i) the total amount of principal for all loans facilitated by our Group in a fiscal quarter that become delinquent for more than 180 days, less the total amount of recovered past due principal for all loans facilitated by our Group that were delinquent for more than 180 days in the same fiscal quarter, divided by (ii) the total initial principal amount of loans facilitated by our Group in such fiscal quarter; loans under Intelligent Credit Engine and other technology solutions are not included in the delinquency rate calculation
"30 day collection rate"	a percentage, which is equal to (i) the amount of principal that is repaid in one month among the total amount of principal that is overdue as of a specified date, divided by (ii) the total amount of principal that is overdue as of such specified date
"30 day+ delinquency rate"	a percentage, which is equal to (i) the outstanding loan balance of on- and off-balance sheet loans facilitated by our Group that are 31 to 180 calendar days past due, divided by (ii) 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 and other technology solutions are not included in the delinquency rate calculation
"30 day+ vintage delinquency rate"	a percentage, which is equal to (i) the total amount of principal for all loans facilitated by our Group in a fiscal quarter that become delinquent for more than 30 days, less the total amount of recovered past due principal for all loans facilitated by our Group that were delinquent for more than 30 days in the same fiscal quarter, divided by (ii) the total initial principal amount of loans facilitated by our Group in such fiscal quarter; loans under Intelligent Credit Engine and other technology solutions are not included in the delinquency rate calculation

GLOSSARY OF TECHNICAL TERMS

“90 day+ delinquency rate”	a percentage, which is equal to (i) the outstanding loan balance of on- and off-balance sheet loans facilitated by our Group that are 91 to 180 calendar days past due, divided by (ii) 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 and other technology solutions are not included in the delinquency rate calculation
“ABS(s)”	asset-backed securities
“Argus Engine”	Argus Intelligent Risk Management Engine, an AI-powered engine that assesses risks spanning the loan lifecycle, including fraud detection, credit profiling and post-facilitation services
“CAGR”	compound annual growth rate
“Capital-light model”	a comprehensive suite of technology-enabled loan facilitation services spanning the loan lifecycle, from borrower acquisition, technology empowerment in credit assessment to post-facilitation services, under which we currently do not take any credit risk
“Credit-Tech”	credit technology services, which refer to services using technology solutions to empower and enhance credit services, and are characterized by distinguished efficiency and quality
“loan facilitation volume”	the total principal amount of loans facilitated or originated by, as the context mandates, a Credit-Tech platform, a traditional financial institution or other market players in the credit industry; in the context of loan facilitate volume of loans facilitated or originated by us, the total principal amount of loans facilitated or originated during the given period, including loan volume facilitated through Intelligence Credit Engine (ICE) and other technology solutions

GLOSSARY OF TECHNICAL TERMS

“outstanding loan balance”	the total amount of principal outstanding for loans facilitated or originated by a Credit-Tech platform, as the context mandates, a traditional financial institution or other market players in the credit industry at the end of each period; in the context of the outstanding balance of loans facilitated or originated by us, the total amount of principal outstanding for loans facilitated or originated at the end of each period, including loan balance for ICE and other technology solutions excluding loans delinquent for more than 180 days
“repeat borrower contribution”	a percentage, the numerator of which is the principal amount of loans borrowed during that period by borrowers who had historically made at least one successful drawdown, and the denominator of which is the total loan facilitation volume through our platform during that period
“SaaS”	Software-as-a-Service
“SME”	small- and micro-enterprises and owners of small- and micro-enterprises
“users with approved credit lines”	users who have submitted their credit applications and are approved with a credit line at the end of each period

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will," "expect," "anticipate," "estimate," "believe," "going forward," "ought to," "may," "seek," "should," "intend," "plan," "projection," "could," "vision," "goals," "aim," "aspire," "objective," "target," "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed "Risk Factors."

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution [REDACTED] against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Hong Kong Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information set out in this document before making an [REDACTED] in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the [REDACTED]. You should pay particular attention to the fact that we are a company incorporated and registered in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

Risks Related to Our Business and Industry

The Credit-Tech industry is rapidly evolving, which makes it difficult to effectively assess our future prospects.

The Credit-Tech industry in the PRC is in a developing stage. The regulatory framework for this market is also evolving and may remain uncertain for the foreseeable future. In addition, the Credit-Tech industry in China has not witnessed a full credit cycle. The market players in the industry, including us, may not be able to respond to the change of market situations effectively and maintain steady business growth when the industry enters a different stage. In addition, we cannot assure you that a contraction in the availability of funds will not happen at later stages of the credit cycle. As such, we may not be able to sustain our historical growth rate in the future.

You should consider our business and prospects in light of the risks and challenges we encounter or may encounter given the rapidly evolving market in which we operate, along with our limited operating history. These risks and challenges include our ability to, among other things:

- offer competitive products and services;
- broaden our prospective borrower base;
- increase the utilization of our products by existing borrowers as well as new borrowers;
- maintain and enhance our relationship and business collaboration with our partners;
- maintain low delinquency rates of loans facilitated by us;
- develop and maintain cooperative relationships with financial institution partners to secure sufficient, diversified, cost-efficient funding to the drawdown requests;

RISK FACTORS

- continue to develop, maintain and scale our platform and sustain our historical growth rates;
- continue to develop and improve the effectiveness, accuracy and efficiency of our proprietary credit assessment and profiling technologies;
- navigate through a complex and evolving regulatory environment;
- improve our operational efficiency and profitability;
- attract, retain and motivate talented employees to support our business growth;
- enhance our technology infrastructure to support the growth of our business and maintain the security of our system and the confidentiality of the information provided and utilized across our system;
- navigate through economic conditions and fluctuations; and
- defend ourselves against legal and regulatory actions, such as actions involving intellectual property or privacy claims.

We have a limited operating history and are subject to credit cycles and the risk of deterioration of credit profiles of borrowers.

We were established in 2016 and officially launched the capital-light model in May 2018. Our business is subject to credit cycles associated with the volatility of the general economy and with the trends of the Credit-Tech industry in China. As we have a limited operating history, we have not experienced a full credit cycle in China. If economic conditions deteriorate, we may face an increased risk of default or delinquency of borrowers, which will result in lower returns or even losses. In the event that the creditworthiness of borrowers deteriorates or we cannot track the deterioration of their creditworthiness, the criteria we use for the analysis of user credit profiles may be rendered inaccurate, and our credit profiling system may be subsequently rendered ineffective. This in turn may lead to higher default rates and adversely impact our results of operations. For example, the 30 day+ delinquency rate and 90 day+ delinquency rate for all loans facilitated through our platform as of June 30, 2022 increased as compared to that as of December 31, 2021, 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. Please refer to “Business – Credit Assessment – Our Credit Performance” for details.

In addition, any deterioration in borrowers’ creditworthiness, or any increase in our delinquency rate will also discourage our financial institution partners from cooperating with us. If our financial institution partners choose to adopt a tight credit approval and drawdown funding policy, our ability to secure funding will be materially restricted.

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We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected.

The law and regulations governing the loan facilitation business are evolving, and substantial uncertainties exist with respect to their interpretation and implementation. Uncertainties and changes in regulatory environment may increase our cost of operation, limit our options of product offerings or even change our business model fundamentally. We have experienced, and may from time to time be required to make adjustments to our operations in order to maintain compliance with changes in laws, regulations and policies. An example is the promulgation of the Notice on Regulating and Rectifying “Cash Loan” Business (《關於規範整頓“現金貸”業務的通知》), or Circular 141, and related regulations. Circular 141 issued by the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group on December 1, 2017, introduces the regulating guidance on cash loan businesses including online micro-lending companies, P2P platforms and banking financial institutions. Circular 141 provides that a banking financial institution that offers cash loans through loan facilitation is prohibited from (i) accepting credit enhancement or other similar services from third parties that lack requisite licenses to provide guarantees; (ii) outsourcing credit assessment, risk management and other key functions to a loan facilitation operator; and (iii) allowing the loan facilitation operator to charge any interest or fees from the borrower. If a financial institution violates the aforementioned rules and provisions, the regulatory authorities may pursue compulsory enforcement, suspend its business, cancel its qualifications, or supervise the rectifications. In extremely serious circumstances, such financial institution’s business license may be revoked. For a discussion of Circular 141, please see “Regulatory Overview – Regulation on Online Finance Services Industry – Regulations on the business of loans facilitation.”

On the basis of Circular 141, the Interim Measures for Administration of Internet Loans Issued by Commercial Banks (《商業銀行互聯網貸款管理暫行辦法》), or the Internet Loans Interim Measures, provides for more comprehensive and specific provisions on the cooperation between a banking financial institution and a loan facilitation operator. In addition to prohibiting a banking financial institution from outsourcing its credit assessment and risk management functions, the Internet Loans Interim Measures also provide that “core risk management functions such as credit granting approval and contract conclusion shall be independently and effectively carried out by the commercial bank.” For a discussion of Internet Loans Interim Measures, please see “Regulatory Overview – Regulation on Online Finance Services Industry – Regulations on the business of loans facilitation.”

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Furthermore, on October 9, 2019, nine government authorities including the CBIRC, the NDRC and the MIIT promulgated the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies (《融資擔保公司監督管理補充規定》), or the Supplementary Financing Guarantee Provisions, which, as advised by our PRC Legal Adviser, for the first time, explicitly requires that institutions providing services such as borrower recommendation and credit assessment for various lending institutions, including us as a Credit-Tech company, shall not provide, directly or in a disguised form, financing guarantee services without prior approval. For the companies without the relevant financing guarantee license but actually engaging in financing guarantee business, the regulatory authorities shall cease such operations and cause these companies to properly settle the existing business contracts. For a discussion of the Supplementary Financing Guarantee Provisions, please see “Regulatory Overview – Regulations on Financing Guarantee.”

Before the promulgation of Circular 141, we followed the market practice in preparing agreements used in our loan facilitations. In response to certain requirements under Circular 141, the Supplementary Financing Guarantee Provisions and the Internet Loans Interim Measures, we have made several adjustments to our collaboration model with certain financial institution partners. However, we may still be deemed non-compliant with Circular 141, the Supplementary Financing Guarantee Provisions, the Internet Loans Interim Measures or other relevant rules in the following aspects of our business:

- *Guarantee practice.* We neither collected guarantee fees from our financial institution partners, nor took providing guarantees as our main operating business through our non-licensed subsidiaries, while historically a Consolidated Affiliated Entity that had not obtained the financing guarantee license provided guarantees or other credit enhancement services to certain financial institution partners. Under such model, the non-licensed Consolidated Affiliated Entity could be deemed as operating financing guarantee business and therefore non-compliant with Circular 141 and the Supplementary Financing Guarantee Provisions. We no longer entered into any new framework agreement since the beginning of 2019, under which we provided guarantee or other credit enhancement services to financial institution partners through the non-licensed Consolidated Affiliated Entity and have completely ceased such practice through the non-licensed Consolidated Affiliated Entity since September 2020. Please refer to “Business – Legal Proceedings and Compliance – Compliance Matters – Circular 141 and Supplementary Financing Guarantee Provisions” for details. Currently, third-party guarantee companies or the licensed Consolidated Affiliated Entity provides guarantee or other credit enhancement services to our financial institution partners. We engage third-party guarantee companies to provide guarantee services according to the commercial arrangements of the financial institution partners and because the relevant regulations impose a cap on the outstanding guarantee liabilities of the licensed Consolidated Affiliated Entity. At the same time, we provide back-to-back guarantees for external guarantee companies. We provide such guarantees to satisfy the needs of the external guarantee companies according to their arrangements and practices and primarily under credit-driven services. As advised by our PRC Legal Adviser, the back-to-back guarantee model is not prohibited by Circular 141, because we are not directly providing guarantee to banking financial institutions.

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However, in the absence of authoritative interpretation of Circular 141, we cannot assure you that all the PRC regulatory authorities will have the same view as our PRC Legal Adviser on this issue. Moreover, given the lack of further interpretations, the exact definition and scope of "providing financing guarantee business in a disguised form" under the Supplementary Financing Guarantee Provisions is unclear. Therefore, we cannot be certain that our new model will not be determined to be in violation of the Supplementary Financing Guarantee Provisions. For additional information on potential risk related to compliance with the leverage ratio limits for financing guarantee business, please see "– We are subject to uncertainties surrounding regulations and administrative measures of micro-lending business and financing guarantee business. If any of our business practices are deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected."

- *Payment.* We have adopted a payment model and applied it to our cooperation with all financial institution partners. Under our payment model, we do not charge interests to borrowers for loans funded by our financial institution partners; instead, we charge service fees to financial institutions. In certain cases, some financial institution partners further engage us and a third-party payment system service provider to together arrange payment clearance, pursuant to which borrowers first repay to a third-party payment system and we work together with the payment system service provider to split the total repayment amount, including principal, interest and service fees, to the portions that financial institution partners and we are each entitled to. The third-party payment service providers are engaged per our financial institution partners' request and are mainly for the purpose of general payment processing and clearance. We do not charge any fees from borrowers under our payment model for loans funded by our financial institution partners. As advised by our PRC Legal Adviser, such payment model does not violate Circular 141 or the Internet Loans Interim Measures. However, in the absence of authoritative interpretation of Circular 141 and given substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, we cannot assure you that PRC regulatory authorities will ultimately take a view that is consistent with our PRC Legal Adviser.
- *Product pricing.* In accordance with the evolution of regulatory environments, we have lowered our product pricing, which is calculated based on the internal rate of return methodology. We may further adjust our product pricing from time to time as a result of changes in regulations or our business strategies. If we are unable to keep up with the evolution of regulations and maintain compliance or are deemed to price loans at a rate that exceed the regulatory limits, we could be ordered to suspend, rectify or terminate our practices or operations, subject to cancellation of qualifications, or ordered to relinquish the excessive portion of the interest income. If any of these occurs, our business, financial condition, results of operations and our cooperation with financial institution partners could be materially and adversely affected as a result. For additional information on potential risks associated with product pricing, please see "– The pricing of loans facilitated through our platform may be deemed to exceed interest rate limits imposed by regulations."

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As advised by our PRC Legal Adviser, Circular 141 does not have retrospective effect on the loan facilitation business conducted prior to the issuance of Circular 141, and we believe that loans we facilitated prior to the issuance of Circular 141 or under our existing collaboration agreements executed prior to the issuance of Circular 141 are not subject to its jurisdiction. Therefore, credit enhancement services provided by the non-licensed Consolidated Affiliated Entity to financial institution partners under the existing, unexpired framework agreements that were entered into prior to the issuance of Circular 141 on December 1, 2017 are not subject to the requirements under Circular 141. Besides, the Supplementary Financing Guarantee Provisions allow the companies that engaged in financing guarantee business without the relevant financing guarantee license to properly settle the existing business contracts. In addition, to fulfill the requirement pursuant to the Supplemental Financing Guarantee Provisions issued on October 9, 2019 and ensure compliance, we continued to further adjust our historical financing guarantee practice and properly make settlement for the historical framework agreement with the only remaining financial institution partner to which we provided guarantee services through the non-licensed Consolidated Affiliated Entity, despite the impact of COVID-19 in the first half of 2020. We ceased all relevant guarantees or other credit enhancement services provided through the non-licensed Consolidated Affiliated Entity in September 2020. However, we cannot rule out the possibility that government authorities would still consider our guarantee practice, payment model, product pricing or other aspects of our business to be in violation of Circular 141 and there can be no assurance that the PRC government authorities will ultimately take a view that is consistent with our PRC Legal Adviser. To the extent that any aspect of our products or services is deemed to be non-compliant with any requirements of the relevant PRC laws and regulations, we may need to further adjust our current practices within a limited time period and, as a result, our business operations may be negatively impacted.

In addition, our credit assessments assistance to commercial banks mainly depends on the evaluation of information regarding personal credit status, which may be deemed as a "data-driven risk management model," a model that regulations such as Circular 141 demand to be adopted with care and caution. We may also be deemed to engage in credit reporting business or credit reporting function services by the PRC authorities, and may be required to involve a third-party licensed institution to ensure compliance pursuant to the Administrative Measures for Credit Reporting Business (《徵信業務管理辦法》), or the Credit Reporting Measures. If such assistance is prohibited, it may affect the subsequent collaboration between us and our financial institution partners. If we are prohibited from conducting our credit assessment, our operation will be adversely affected. See also "– We are subject to uncertainties surrounding regulations and administrative measures of credit reporting business. If any of our business practices is deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be materially and adversely affected."

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Further, if our financial institution partners cease to fund the loans, either on a temporary basis to await more clarity on the new regulatory environment, or on a permanent basis for non-compliance concerns, our operation will be adversely impacted. If fewer financial institutions are willing to fund the loans, the competition for funding may become more intense, and the cost of funding may increase, which may adversely impact our results of operations.

Besides, in April 2021, we and 12 other major financial technology platforms were invited to meet with the PBOC, the CBIRC, the CSRC, the SAFE and other financial regulators to discuss the operations and compliance practice of these platforms' internet financial businesses in China. We have been making rectifications and adjustments to our operations to address the issues discussed during the meeting and results of our self-examination according to the guidance provided by the regulators. As of the Latest Practicable Date, we have substantially completed most of the rectification measures based on our self-examination results according to the guidance provided by the relevant authorities. The regulatory authorities have reviewed our rectification measures in general. As a result, we have moved on to the regular regulatory supervision status (常態化監管階段) from the self-examination and rectification status (自查整改階段) according to the guidance provided by the regulatory authorities. Our rectification results remain subject to the regulators' regular supervision, and we cannot assure you that the measures we have taken and rectifications we have made will satisfy the requirements from the regulators. To the extent that our rectification efforts are deemed not sufficient or unsatisfactory to the regulators, we may face further rectification orders or other administrative actions, in which case our business and operations may be materially and negatively affected.

We are subject to uncertainties surrounding regulations and administrative measures of micro-lending business and financing guarantee business. If any of our business practices are deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected.

A small portion of loans facilitated on our platform are funded by Fuzhou Microcredit, the subsidiary of Shanghai Qiyu, one of our VIEs. We also provide financing guarantees to our financial institution partners through the Consolidated Affiliated Entities, Fuzhou Financing Guarantee and Shanghai Financing Guarantee (before its financing guarantee license was cancelled upon its voluntary application), for some loans we facilitate. As a result, we are subject to a complex and evolving body of regulations in relation to these businesses.

On August 2, 2017, the PRC State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies (《融資擔保公司監督管理條例》), which became effective on October 1, 2017. The regulations set forth that the outstanding guarantee liabilities of a financing guarantee company shall not exceed ten times its net assets, and that the balance of outstanding guarantee liabilities for the same guaranteed party shall not exceed 10% of a financing guarantee company's net assets, while the balance of outstanding guarantee liabilities for the same guaranteed party and its affiliated parties shall not exceed 15% of a financing guarantee company's net assets.

RISK FACTORS

On September 16, 2020, the CBIRC issued the Notice on Strengthening the Supervision and Management of Micro-Lending Companies (《關於加強小額貸款公司監督管理的通知》), or Circular 86. Adopted to regulate the operations of micro-lending companies, Circular 86 provides that the total funding amount obtained by a micro-lending company through bank loans, shareholder loans and other non-standard financing instruments shall not exceed such company's net assets. In addition, the total funding amount obtained by a micro-lending company through the issuance of bonds, asset securitization products and other instruments of standardized debt assets shall not exceed four times of its net assets. Local financial regulatory authorities may further lower the leverage limits mentioned above.

On November 2, 2020, the CBIRC and the PBOC published the Interim Measures for the Administration of Online Micro-Lending Business (Draft for Comments) (《網絡小額貸款業務管理暫行辦法(徵求意見稿)》), or the Online Micro-Lending Draft, adding new requirements to online micro-lending business. In particular, the Online Micro-Lending Draft, among other things, strengthens the condition for licensing and other approvals for conducting online micro-lending business. Pursuant to the Online Micro-Lending Draft, to the extent a micro-lending company engages in online micro-lending business, said business shall mainly be carried out within the provincial-level administrative region to which its place of registration belongs, and shall not operate beyond such region without the approval of the banking regulator under the State Council. On December 31, 2021, the PBOC issued the Regulations on Local Financial Supervision and Administration (Draft for Comments) (《地方金融監督管理條例(草案徵求意見稿)》), which reaffirms that local financial organizations (including micro-lending companies and financing guarantee companies) are required to operate business within the area approved by the local financial regulatory authority, and are not allowed to conduct business across provinces in principle.

Fuzhou Microcredit has obtained the approval to operate micro-lending businesses from the competent supervising authority, which allows Fuzhou Microcredit to conduct micro-lending businesses through the internet. As of the Latest Practicable Date, Fuzhou Microcredit had increased its registered capital to RMB5 billion, which has been fully paid. Currently, Fuzhou Microcredit can conduct cross-province business with its valid license. However, if the Online Micro-Lending Draft were to be adopted in its current form, Fuzhou Microcredit may need to obtain the legal approval of the banking regulator under the State Council in order to engage in online micro-lending business across provincial-level administrative regions. The rules for licensing or approvals for cross-province online micro-lending business is yet to be formulated as of the Latest Practicable Date. We cannot assure you that, if the authorities later promulgate such rules for micro-lending business or other rules imposing licensing or approval requirements on financing guarantee business, Fuzhou Microcredit or Fuzhou Financing Guarantee will be qualified for such licenses or approvals in accordance with the requirements thereunder. If we fail to obtain the regulatory approvals to increase the authorized amounts or to establish additional online micro-lending companies, we may not be able to obtain sufficient funding to fulfill our future growth needs. From time to time, we may need additional licenses to operate our business. Failure to obtain, renew, or retain requisite licenses, permits or approvals may adversely affect our ability to conduct or expand our business.

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Furthermore, Fuzhou Microcredit is subject to the laws, regulations, policies and measures in Fuzhou in respect of registered capital and of loan-to-capital and other leverage ratios, among other things, and our financing guarantee companies are subject to the supervision of local financial authorities in Fuzhou and Shanghai and other jurisdictions where their branch offices are located. We may be subject to regulatory warnings, correction orders, condemnation and fines and may be required to further adjust our business if any of our micro-lending and financing guarantee companies is deemed to have violated national, provincial or local laws and regulations or regulatory orders and guidance.

We are subject to uncertainties surrounding regulations and administrative measures of credit reporting business. If any of our business practices is deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be materially and adversely affected.

The PRC government has adopted several regulations governing personal and enterprise credit reporting businesses. These regulations include the Regulation for the Administration of Credit Reporting Industry (《徵信業管理條例》) enacted by the State Council and effective in March 2013, and the Management Rules on Credit Agencies (《徵信機構管理辦法》) issued by the PBOC, in the same year. According to the Regulation for the Administration of Credit Reporting Industry, "credit reporting business" refers to the gathering, organizing, preserving and processing of credit information on organizations such as enterprises and public service units and individuals, as well as distribution of such information to information users, and a "credit reporting agency" refers to credit reporting entity established in accordance with law and mainly engaged in credit reporting business. Entities engaged in personal/enterprise credit reporting business without such approval/completing filing formality may be subject to fine or criminal liability.

On September 27, 2021, the PBOC issued the Credit Reporting Measures, which took effect on January 1, 2022. The Credit Reporting Measures define "credit information" to include "basic information, borrowing and lending information and other relevant information legally collected in the offering of services of finance or other activities for purposes of identifying and judging the credit standing of businesses and individuals, as well as result of analysis and evaluation based on the aforesaid information," and define "credit reporting business" as the collection, collation, keeping and processing of credit information and provision of such information to information users. The Credit Reporting Measures applies to entities that carry out credit reporting business and "activities relating to credit reporting business" in China. Separately, entities providing "services of credit reporting function" in the name of "credit information service, credit service, credit evaluation, credit rating, credit repair, among others" are also subject to the Credit Reporting Measures. Credit Reporting Measures provides for an 18-month grace period from its effectiveness date for organizations that engage in credit reporting business to obtain the credit reporting business license and comply with its other provisions. The Credit Reporting Measures is new and significant uncertainties exist with respect to its interpretation and implementation. For example, the Credit Reporting Measures does not directly deny the legitimacy of existing data analytics or precision marketing service providers in the financial service industry, nor does it provide a

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clear guidance or implementation rules on how and when these providers, if deemed to be conducting credit reporting business, could apply for required licenses or otherwise comply with the Credit Reporting Measures. Therefore, we cannot rule out the possibility that some aspects of our business may subsequently be deemed as non-compliant and be required to be ceased or adjusted in a way that is adverse to our business and prospects. The lack of clear guidance under, and the uncertainty associated with, the Credit Reporting Measures may also result in substantial compliance cost incurred by us.

In addition, on July 7, 2021, the Credit Information System Bureau of PBOC further issued a notice, or the Notice Relating to Disconnecting Direct Connection, to 13 internet platforms including us, requiring the internet platforms to achieve a complete "disconnected direct connection" ("斷直連") in terms of personal information with financial institutions, meaning that the direct flow of personal information from internet platforms that collect such information to financial institutions is prohibited.

We have entered into a collaboration agreement with a licensed credit reporting institution for the implementation of plans to ensure the flow of personal information complies with the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection. In addition, we have been actively communicating with regulatory authorities regarding the adjustment actions and will continue to do so during the 18-month grace period provided in the Credit Reporting Measures. We may incur significant costs and expenses to ensure compliance and to make necessary changes to our internal policies and practices. According to the Notice Relating to Disconnecting Direct Connection, the Credit Reporting Measures and other related laws and regulations, any failure or perceived failure by us to meet the relevant requirements may subject us to fine or criminal liability, which could have an adverse effect on our business, financial condition and results of operations.

The pricing of loans facilitated through our platform may be deemed to exceed interest rate limits imposed by regulations.

Circular 141 requires online platforms, micro-lending companies and other entities to charge synthetic fund costs, including the interest and fees paid by the borrowers, in compliance with the rules provided by the Supreme People's Court, and such costs shall be within the legally allowed annualized interest rate for private lending. According to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) promulgated on September 1, 2015, in the event that the sum of the annualized interest that lenders charge and the fees we and our financial institution partners charge exceeds the 24% limit, and borrowers refused to pay the portion that exceeds the 24% limit, PRC courts would not uphold our request to demand the portion of the fees that exceeds the 24% limit from such borrowers. If the sum of the annual interest that lenders charge and the fees we and our financial institution partners charge exceeds 36%, the portion that exceeds the 36% limit is invalid. The Supreme People's Court issued the Several Opinions on Further Strengthening the Judicial Work in the Finance Sector in August 2017, which provides that in the context of peer-to-peer lending, if an online lending information intermediary and a lender

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intentionally collude to evade the interest rate ceiling as set out by the law through disguising loan interest as loan facilitation service fees, then such arrangements shall be declared invalid. On July 22, 2020, the Supreme People's Court and the NDRC jointly released the Opinions on Providing Judicial Services and Safeguards for Accelerating the Improvement of the Socialist Market Economic System for the New Era, or the Opinions. The Opinions set out that if the interest and fees, including interest, compound interest, penalty interest, liquidated damages and other fees, claimed by one party to the loan contract exceed the upper limit under judicial protection, the claim will not be supported by the court, and if the parties to the loan disguise the financing cost in an attempt to circumvent the upper limit, the rights and obligations of all parties to the loan will be determined by the actual loan relationship.

On August 20, 2020, the Supreme People's Court issued the Decision on Amending the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於修改〈關於審理民間借貸案件適用法律若干問題的規定〉的決定》), or the Judicial Interpretation Amendment, which was revised on January 1, 2021 and amended the upper limit of private lending interest rates under judicial protection. According to the Judicial Interpretation Amendment, if the service fees or other fees that we charge are deemed to be loan interest or fees related to loans (inclusive of any default rate and default penalty and any other fee), in the event that the sum of the annualized interest that lenders charge and fees we and our financial institution partners charge exceeds four times the one-year Loan Prime Rate at the time of the establishment of the agreement, or the Quadruple LPR Limit, borrowers may refuse to pay the portion that exceeds the Quadruple LPR Limit. In that case, PRC courts will not uphold our request to demand the payment of fees that exceed the Quadruple LPR Limit from such borrowers. If borrowers have paid the fees that exceed the Quadruple LPR Limit, such borrowers may request us to refund the portion exceeding the Quadruple LPR Limit and the PRC courts may uphold such requests. The aforementioned one-year Loan Prime Rate refers to the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center on the 20th of each month starting from August 20, 2019, and the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center on September 20, 2022 was 3.65%. We cannot assure you that the one-year loan market quoted interest rate and the Quadruple LPR Limit will not decrease further in the future.

On December 29, 2020, the Supreme People's Court issued the Reply to Issues Concerning the Scope of Application of the New Judicial Interpretation on Private Lending, or the Supreme People's Court Reply, which clarified that seven types of local financial organizations, including micro-lending companies, financing guarantee companies, regional equity markets, pawnshops, financing lease companies, commercial factoring companies and local asset management companies under the regulation of local financial regulatory authorities, are financial institutions established upon approval by financial regulatory authorities. The Judicial Interpretation Amendment is not applicable to disputes arising from their engagement in relevant financial businesses.

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Although the Judicial Interpretation Amendment and the Supreme People’s Court Reply provide that they do not apply to licensed financial institutions, including micro-lending companies that conduct loan and Credit-Tech business, there remain uncertainties in the interpretation and implementation of the Judicial Interpretation Amendment, including whether licensed financial institutions may be subject to its jurisdiction under Circular 141 or in certain circumstances, the basis of the calculation formula used to determine the interest limit, the scope of inclusion of related fees and insurance premiums, as well as inconsistencies between the standard and level of enforcement by different PRC courts. We cannot assure you that there will not be interpretations of the Judicial Interpretation Amendment expanding its jurisdiction to cover licensed financial institutions, nor can we guarantee that there will not be any changes to the detailed calculation formula used to determine the interest limit, that our future fee rates will not be lowered as a result of the Quadruple LPR Limit, or that the Quadruple LPR Limit will not be applied to our historical and legacy products where the related dispute cases are accepted by PRC courts of first instance on or after August 20, 2020. In such cases, we and our financial institution partners may be required to repay certain borrowers if our historical and legacy loan products are deemed to have violated the applicable laws and regulations concerning the limit of lending interest and fee rates. Our business, results of operations and financial condition may therefore be materially and adversely affected by the implementation of the Judicial Interpretation Amendment.

In addition to rules, opinions and decisions issued by the PRC courts, we and our financial institution partners are also subject to regulatory agencies’ requirements, supervision or guidance. We have lowered the pricing on loans we facilitate and may further adjust the pricing from time to time as a result of changes in regulations or our business strategies. Currently, we adhere to the pricing policy that no loan should have an IRR exceeding 36%. As of June 30, 2022, the IRR for all of loans are under 36%, and the outstanding balance of loans with an IRR exceeding 24% amounted to RMB26.4 billion (US\$3.9 billion), representing 20.0% of all the outstanding balance of loans⁽¹⁾ facilitated by us, compared to RMB62.1 billion and 43.7%, respectively, as of December 31, 2021. If we are unable to keep up with the evolvement of regulations and maintain compliance or are deemed to price loans at a rate that exceeds the regulatory limits, we could be ordered to suspend, rectify or terminate our practices or operations, subject to cancelation of qualifications, or ordered to relinquish the excessive portion of the interest income. If any of these occurs, our business, financial condition, results of operations and our cooperation with financial institution partners could be materially and adversely affected. See also “– We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected.”

Note:

- (1) The IRR does not take into account loans facilitated under risk management SaaS, which are directly transacted between the relevant financial institutions and borrowers.

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Our transaction process may result in misunderstanding among borrowers.

Our paperless transaction process is facilitated primarily on our mobile platform. While such transaction process is streamlined and convenient, it involves certain inherent risks. Borrowers may not read the electronic agreements closely, which may result in misunderstanding of certain terms and conditions. Furthermore, information in our product promotion materials and our app may result in misunderstanding among borrowers and be deemed misleading. For instance, we utilize the internal rate of return methodology to calculate the total interest and service fees to be paid by borrowers and to determine the pricing of loan products facilitated by us. Despite the fact that we have disclosed our fee structure in the agreements with borrowers and display on our mobile platform how service fees are calculated using the internal rate of return, they may overlook or misunderstand such service fees, interest rates and other fees, and calculate the total interest and service fees utilizing a different methodology, which may result in misunderstanding of our fee structure. If the government authorities and the courts determine that the interest rate disclosed in our product promotion and our app is misleading, the courts may support the borrower's request to rescind the agreement or determine a lower interest and service fee to be paid by the borrower, and we may be subject to fines and penalties by the courts and government authorities for the misleading promotion. In addition, such misunderstanding may arouse negative publicity and complaints among borrowers, harm our brand name and reputation and in turn hurt our ability to retain and attract borrowers, which could have a material adverse effect on our business, financial condition and results of operations.

Fraudulent activity on our platform could negatively impact our operating results, brand and reputation and cause the use of loan products facilitated by us and our services to decrease.

We are subject to the risk of fraudulent activity associated with prospective borrowers and parties handling information on borrowers or financial institution partners. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. Even if we identify fraudulent prospective borrower and reject his/her credit application, such prospective borrower may re-apply by using fraudulent information. We may fail to identify such behavior, despite our measures to verify personal identification information provided by prospective borrowers. Furthermore, we may not be able to recoup funds underlying transactions made in connection with fraudulent activities. A significant increase in fraudulent activities could negatively impact our brands and reputation, discourage financial institution partners from collaborating with us, reduce the number of transactions facilitated from borrowers and lead us to take additional steps to reduce fraud risk, which could increase our costs. High profile fraudulent activity could even lead to regulatory intervention and may divert our management's attention and cause us to incur additional expenses and costs.

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We rely on our proprietary credit profiling model in assessing the creditworthiness of borrowers and the risks associated with loans. If our model is flawed or ineffective, or if we otherwise fail or are perceived to fail to manage the default risks of loans facilitated through our platform, our reputation and market share would be materially and adversely affected, which would severely impact our business and results of operations.

Our ability to attract users to, and build trust in, our platform is significantly dependent on our ability to effectively evaluate users' credit profiles and the likelihood of default based on the AI-powered Argus Engine. The AI-powered tool may be flawed or ineffective in processing the immense data and providing an accurate report. It may not adjust itself to the changes in the data patterns or macroeconomic situations. In addition, it may be breached, manipulated or otherwise compromised.

If any of the foregoing were to occur in the future, our financial institution partners may try to rescind their affected investments or decide not to invest in loans, or borrowers may seek to revise the terms of their loans or reduce the use of our platform for financing.

Meanwhile, as our Argus Engine becomes more familiar to the public and fraudulent users become better educated regarding the industry practice, it is possible that despite the iterative development of our anti-fraud and credit-scoring algorithm, our model becomes outdated and ineffective in detecting new fraud schemes or making accurate credit assessments. If that happens, our ability to control our delinquency rate will become substantially limited, which will adversely impact our business prospects and financial results.

We rely on our risk management team to establish and execute our risk management policies. If our risk management team or key members of such team were unable or unwilling to continue in their present positions, our business may be severely disrupted.

We rely on our risk management team to continuously iterate and train our Argus Engine, which is the center of the establishment and execution of our credit profiling policies. Although our Argus Engine is equipped with machine learning capability and conducts self-learning and self-development all based on the data we have, we still rely on our risk management team to spot and fix potential errors and flaws in our Argus Engine. Meanwhile, the Credit-Tech market changes quickly and we may need to adjust our credit profiling principles from time to time to control our loss rate while securing a stable increase in borrowers and satisfying returns for our financial institution partners. We rely on our risk management team to closely monitor the change in the market and our business, and update our credit profiling principles accordingly, which will be then used to train our Argus Engine. If our risk management team or key members of such team were unable or unwilling to continue in their present positions, we may have to incur additional time and monetary cost to find a replacement to our risk management team that fits us, and our result of business operation and financial status may be adversely and severely impacted.

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Our business is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity, many of which are subject to change and uncertain interpretation. Any changes in these laws and regulations have caused and could continue to cause changes to our business practices and increase costs of operations, and any security breaches or our actual or perceived failure to comply with such laws and regulations could result in claims, penalties, damages to our reputation and brand, declines in user growth or engagement, or otherwise harm our business, results of operations and financial condition.

Our platform collects, stores and processes certain personal and other sensitive data from users for the purpose of providing our services, such as name, identity number and phone number. We have obtained the explicit consents from users to use their personal information within the scope of authorization and we have taken technical measures to protect the security of such personal information and prevent personal information from being divulged, damaged or lost. However, we face risks inherent in handling and protecting personal data. In particular, we face a number of challenges relating to data from transactions and other activities on our platform, including:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, storage, transfer, disclosure and security of personal information, which are subject to change and new interpretations, including any requests from regulatory and government authorities relating to such data.

In general, we expect that data security and data protection compliance will receive greater attention and focus from regulators, both domestically and globally, as well as continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, or if we are accused of failing to comply with such laws and regulations, we could become subject to corrective orders, penalties, including fines, suspension of business, websites, or applications, and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

Recently, regulatory authorities in China have enhanced data protection and cybersecurity regulatory requirements, many of which are subject to change and uncertain interpretation. These laws continue to develop, and the PRC government may adopt further rules, restrictions and clarifications in the future. Moreover, different PRC regulatory bodies, including the SCNPC, the MIIT, the CAC, the MPS, and the SAMR, have enforced data privacy and

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protections laws and regulations with varying standards and applications. See “Regulatory Overview – Regulations on Information Security and Privacy Protection.” The following are non-exhaustive examples of certain recent PRC regulatory activities in this area:

Cybersecurity

- The PRC Cybersecurity Law (《中華人民共和國網絡安全法》), which became effective in June 2017, created China’s first national-level data protection framework for “network operators.” It requires, among other things, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and to prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly collect and use personal information within the scope of authorization by the subject of such personal information unless otherwise prescribed by laws or regulations. Significant financial, managerial and human resources are required to comply with such legal requirements, enhance information security and address any issues caused by security failures. We face the risk of security breaches or similar disruptions. Due to the data assets we have, our platform is an attractive target and potentially vulnerable to cyberattacks, computer viruses, physical or electronic break-ins or similar disruptions. Because techniques used to sabotage or obtain unauthorized access to systems evolve continuously and frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative counter-measures. In addition to advances in technology, an increased level of sophistication and diversity of our products and services, an increased level of expertise of hackers, new discoveries in the field of cryptography or other risks can result in the compromise or breach of our websites or our apps. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, user data or personal information could be stolen or misused, which could expose us to penalties or other administrative actions, time-consuming and expensive litigation and negative publicity, materially and adversely affect our business and reputation and deter potential users from using our products and financial institution partners from cooperating with us, any of which would have a material adverse impact on our results of operations, financial condition and business prospects.

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Data Security

- In June 2021, the SCNPC promulgated the PRC Data Security Law, which took effect in September 2021. The PRC Data Security Law, among other things, provides for security review procedure for data-related activities that may affect national security. It also introduces a data classification and hierarchical protection system based on the importance of data in terms of economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. Appropriate level of protection measures are required to be taken for each respective category of data. In addition, the PRC Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body or law enforcement body with any data stored within the territory of the PRC without the approval of the competent PRC government authorities. A series of regulations, guidelines and other measures have been and are expected to be adopted to implement the requirements created by the PRC Data Security Law. For example, in July 2021, the State Council promulgated the Regulations on Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), which became effective on September 1, 2021. Pursuant to this regulation, a “critical information infrastructure” is defined as key network facilities or information systems of critical industries or sectors, such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, the damage, malfunction or data leakage of which may endanger national security, people’s livelihoods and the public interest. In December 2021, the CAC, together with other authorities, jointly promulgated the Measures for Cybersecurity Review (2021 Revision) (《網絡安全審查辦法》(2021版)), which became effective on February 15, 2022 and replaces its predecessor regulation. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators that procure internet products and services or network platform operators that carry out data processing activities must be subject to a cybersecurity review if their activities affect or may affect national security. The Cybersecurity Review Measures further stipulate that network platform operators that hold personal information of over one million users shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange. As of the Latest Practicable Date, no detailed rules or implementation rules have been issued by any authority and we have not been informed that we are a “critical information infrastructure operator” by any government authority. However, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of the applicable laws. Therefore, it is uncertain whether we would be deemed to be a “critical information infrastructure operator” under PRC law. If we are deemed a “critical information infrastructure operator” under the PRC cybersecurity laws and regulations, we may be subject to obligations in addition to those with which we are currently obligated to comply.

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- On July 7, 2022, the CAC published the Outbound Data Transfer Security Assessment Measures (《數據出境安全評估辦法》) (the “Outbound Data Transfer Security Assessment Measures”), which took effect on September 1, 2022 and specify that data processors who intend to provide important data and personal information that are collected and generated in the operation within the territory of the PRC to overseas shall be subject to security assessment with the CAC. Under the current Outbound Data Transfer Security Assessment Measures, an entity must apply for a CAC security assessment if it processes personal information of over one million individuals and outbound transfers personal information, or if it has cumulatively outbound transferred personal information of more than 100,000 individuals or sensitive personal information of more than 10,000 individuals since January 1 of the previous year. The Outbound Data Transfer Security Assessment Measures further stipulate the process and requirements for the security assessment. However, it remains uncertain how the PRC government authorities will regulate companies under such circumstances. It is also unclear what constitutes “outbound data transfer.” These bring more uncertainties with respect to the application and enforcement of the newly published measures, and we may be subject to such outbound data security assessment with the CAC. We will closely monitor and assess any relevant legislative and regulatory development and prepare for a security assessment when necessary.
- In November 2021, the CAC released the Measures of Regulations on the Network Data Security Administration (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Regulations on Network Data Security. The Draft Regulations on Network Data Security define “data processors” as individuals or organizations that can make autonomous decisions regarding the purpose and the manner of their data processing activities such as data collection, storage, utilization, transmission, publication and deletion. In accordance with the Draft Regulations on Network Data Security, data processors shall apply for a cybersecurity review for certain activities, including, among other things, (i) the listing abroad of data processors that process the personal information of more than one million users; (ii) merger, reorganization or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (iii) listing in Hong Kong which affects or may affect national security; or (iv) any data processing activity that affects or may affect national security. However, there have been no clarifications from the relevant authorities as of the Latest Practicable Date as to the standards for determining whether an activity is one that “affects or may affect national security.” In addition, the Draft Regulations on Network Data Security requires that data processors that process “important data” or are listed overseas must conduct an annual data security assessment by itself or authorize a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. As of the Latest Practicable Date, the Draft Regulations on Network Data Security has not been formally adopted, and their respective provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty.

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Personal Information and Privacy

- The Anti-monopoly Guidelines for the Platform Economy Sector published by the Anti-monopoly Committee of the State Council, effective on February 7, 2021, prohibits collection of user information through coercive means by online platform operators.
- In August 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), which took effect on November 1, 2021. The Personal Information Protection Law provides the protection requirements for processing personal information, and specifies the rules for processing sensitive personal information, which refers to personal information that, once leaked or illegally used, may easily cause harm to the dignity of natural persons or cause harm to a person's safety or property, including information on biometric characteristics, religious beliefs, specific identities, medical health, financial accounts, individual location tracking and others, as well as personal information of minors under the age of 14. It also enhances the punishment for illegal processing of personal information and consolidated various previously promulgated rules with respect to personal information rights and privacy protection. We update our privacy policies from time to time to meet the latest regulatory requirements of PRC government authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law elevates the protection requirements for personal information processing, and many specific requirements of this law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations and any changes in the enforcement or interpretation of such laws and regulations.

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- On September 17, 2021, the CAC, together with eight other government authorities, jointly issued the Guidelines on Strengthening the Comprehensive Regulation of Algorithms for Internet Information Services (《關於加強互聯網信息服務算法綜合治理的指導意見》). The guidelines provide that daily monitoring of data use, application scenarios, and effects of algorithms shall be carried out by relevant regulators, and such relevant regulators shall conduct security assessments of algorithms. The guidelines also provide that an algorithm filing system shall be established, and classified security management of algorithms shall be promoted. On December 31, 2021, the CAC, the MIIT, the MPS, and the SAMR jointly promulgated the Administrative Provisions on Internet Information Service Algorithm-Based Recommendation (《互聯網信息服務算法推薦管理規定》), which took effect on March 1, 2022. The Administrative Provisions on Internet Information Service Algorithm-Based Recommendation, among others, (i) implement classification and hierarchical management for algorithm-based recommendation service providers based on various criteria, (ii) require algorithm-based recommendation service providers to inform users of their provision of algorithm-based recommendation services in a conspicuous manner, and publicize the basic principles, purpose intentions, and main operating mechanisms of algorithm-based recommendation services in an appropriate manner, and (iii) require such service providers to provide users with options that are not specific to their personal profiles, or convenient options to cancel algorithmic recommendation services. We will closely monitor the regulatory development and adjust our business operations from time to time to comply with the regulations over algorithm-based recommendation.

Many of the data- and data privacy-related laws and regulations are relatively new and certain concepts thereunder remain subject to interpretation by the regulators. If any data that we possess belongs to data categories that are or may become subject to heightened scrutiny, we may be required to adopt stricter measures for protection and management of such data. The Cybersecurity Review Measures and the Draft Regulations on Network Data Security remain unclear on whether the relevant requirements will be applicable to companies that, like us, are already listed in the United States. We cannot predict the impact of the Cybersecurity Review Measures and the Draft Regulations on Network Data Security, if any, at this stage, and we will closely monitor and assess any developments in the rule-making process. If the Cybersecurity Review Measures and the enacted version of the Draft Regulations on Network Data Security mandate clearance of cybersecurity review and other specific actions to be taken by [REDACTED] like us, we may face uncertainties as to whether these additional procedures can be completed by us timely, or at all, which may subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, and materially and adversely affect our business and results of operations.

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In general, compliance with the existing PRC laws and regulations, as well as additional laws and regulations that PRC legislative and regulatory bodies may enact in the future, related to cybersecurity, data security and personal information protection, may be costly and result in additional expenses to us, and subject us to negative publicity, which could harm our reputation and business operations. There are also uncertainties with respect to how such laws and regulations will be implemented and interpreted in practice. In light of the fact that laws and regulations on cybersecurity, data privacy and personal information protection are evolving and uncertainty remains with respect to their interpretation and implementation, we cannot guarantee that we will be able to maintain full compliance at all times, or that our existing user information protection system and technical measures will be considered sufficient. Any non-compliance or perceived non-compliance with these laws, regulations or policies may lead to warnings, fines, investigations, lawsuits, confiscation of illegal gains, revocation of licenses, cancelation of filings or listings, closedown of websites, removal of apps and suspension of downloads, price drops in our securities or even criminal liabilities against us by government agencies or other individuals. For example, in July 2021, our 360 Jietiao app was temporarily taken offline by the CAC for the purpose of optimizing product design and offering enhanced user data privacy protection, during which period new downloads were suspended. Our 360 Jietiao app was restored to app stores for downloads in August 2021 after being tested and verified by CAC. We believe the temporary takedown of 360 Jietiao app did not and will not have a material adverse impact on our business operations. However, we cannot assure you that the authorities will not require further system and data privacy protection enhancements in the future as technologies, standards and regulatory environments continue to evolve, in which case our operations may be interrupted or adversely affected. In addition, our launch of new products or services or other actions that we take in the future may subject us to additional laws, regulations, or other government scrutiny.

Credit and other information that we receive from third parties about borrowers may be inaccurate or may not accurately reflect the borrower's creditworthiness, which may compromise the accuracy of our credit assessment.

For the purpose of credit assessment, we obtain from prospective borrowers and third parties certain information of the prospective borrowers, which may not be complete, accurate or reliable. The credit score assigned to a borrower may not reflect that particular borrower's actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate borrower information. We currently cannot reliably determine whether borrowers have outstanding loans through other online platforms at the time they obtain a loan from us even though we adopt certain investigation measures. This creates the risk that a borrower may borrow money through our platform in order to pay off loans on other online platforms and vice versa. If a borrower incurs additional debt before fully repaying any loan such borrower takes out on our platform, the additional debt may impair the ability of that borrower to make repayments on his or her loan. In addition, the additional debt may adversely affect the borrower's creditworthiness generally and could result in the financial distress or insolvency of the borrower. Meanwhile, if the price of the quality data on which we run our algorithms increases, we may not get access to the quality information at the same cost in the future. We may be forced to run our algorithms on fewer quality data, iterate our algorithms or pay more for quality information in the future, each adversely affecting our results of operations.

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If we are unable to maintain or increase the volume of loans facilitated through our platform, our business and results of operations will be adversely affected.

The loan facilitation volume through our platform has grown rapidly since our inception. As of June 30, 2022, we had cumulatively facilitated approximately RMB1,127.5 billion (US\$168.3 billion) of loans. To maintain the high growth momentum of our platform, we must continuously increase the loan facilitation volume by retaining current borrowers and attracting more borrowers, which in turn depends on our ability to acquire users and to offer a diversified loan product portfolio at reasonable costs that address the capital needs of consumers and SMEs in consumption and other life and business settings. We intend to continue to dedicate significant resources to our user acquisition efforts, and develop and refine loan products facilitated by us. If there are insufficient qualified loan requests, our financial institution partners may consider withdrawing from our collaboration or lowering their funding commitments to us. If there are insufficient funding commitments, borrowers may be unable to obtain capital through our platform and may turn to other sources for their borrowing needs.

The overall volume may be affected by several factors, including our brand recognition and reputation, the interest rates offered to borrowers relative to the market rates, the efficiency of our credit assessment process, availability of our financial institution partners, the macroeconomic environment and other factors. In connection with the introduction of new products or response to general economic conditions, we may also impose more stringent borrower qualifications to ensure the quality of loans on our platform, which may negatively affect the growth of our loan facilitation volume. If we are unable to attract qualified borrowers or if borrowers do not continue to participate in our platform at the current rates, we might be unable to increase our loan facilitation volume and revenue as we expect, and our business and results of operations may be adversely affected.

If our collaboration with 360 Group is terminated or otherwise becomes limited, restricted, curtailed, less effective or more expensive in any way, or if we cannot benefit from the brand recognition or business ecosystem of 360 Group as we do, our business may be adversely affected.

We have established a strategic partnership with 360 Group, one of our affiliates, and we collaborate across multiple areas of our business. This strategic partnership has contributed to the growth of our revenue, particularly in the early stage of our business, and we believe that it will continue to contribute to our growth. We have entered into a framework collaboration agreement with 360 Group, setting out the terms of collaboration, especially those related to cloud service and security, user traffic support, and trademark licensing. See “Related Party Transactions – Transactions with 360 Group.” In particular, we have been authorized by 360 Group to use its brand “360,” which allows us to benefit from 360 Group’s strong brand recognition in certain aspects of our business, such as user acquisition, at the early stage of our development. Further, as the strategic partner of 360 Group, we benefit from its business ecosystem as well. For example, our collaboration with Kincheng Bank of Tianjin Co., Ltd., or Kincheng Bank, whose largest shareholder is 360 Group, provides us with opportunity to introduce innovative cooperation arrangements with potential financial institution partners.

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We cannot assure you that we will continue to maintain the same level of collaboration with 360 Group on the same or more favorable terms and conditions, or renew our collaboration agreements at all, upon expiration of the agreement terms, neither can we guarantee that our collaboration with 360 Group will not be terminated by 360 Group or otherwise become limited, less effective or more expensive, which are subject to many factors beyond our control, such as legal requirements and 360 Group’s business condition, plans and strategies. For example, as 360 Group is a public company listed on the Shanghai Stock Exchange in China, it is subject to relevant PRC regulations and exchange rules, which may impact its ability to collaborate with us pursuant to the terms we desire. It came to our attention that, in May 2020, The Bureau of Industry and Security (BIS) of the U.S. Department of Commerce amended the Export Administration Regulations (EAR) by adding twenty-four entities, including Qihoo 360 Technology Co., Ltd. and Qihoo 360 Technology Company to the Entity List. As a result, exports or reexports from the U.S. and in-country transfers in the U.S. to these two entities will face additional license requirements, and the availability of most license exceptions is limited. As of the Latest Practicable Date, the inclusion of these two entities into the Entity List had not had a material adverse effect on our collaboration with 360 Group or on us. During the Track Record Period and up to the Latest Practicable Date, we had not had any dealings with these two entities. Additionally, it came to our attention that 360 Security Technology Inc. was named in the list of entities identified as “Chinese military companies” operating directly or indirectly in the United States in accordance with Section 1260H of the National Defense Authorization Act for fiscal year 2021, which was released by the U.S. Department of Defense on October 5, 2022. As of the Latest Practicable Date, such inclusion had not had any material adverse effect on our collaboration with 360 Group or on us. However, we cannot rule out the possibility that additional restrictions of different nature may be imposed on 360 Group or its affiliates in light of the changes in international trade policies and rising political tensions between the U.S. and China in the past few years. See also “Risks Related to Doing Business in China – Changes in international trade policies and rising political tensions, particularly between the U.S. and China, may adversely impact our business and operating results.” If we are unable to maintain the same level of collaboration with 360 Group, or if we cannot benefit from the brand recognition or business ecosystem of 360 Group as we do, our business may be adversely affected, especially in the aspects of cost and efficiency of user acquisition.

Our access to sufficient and sustainable funding at reasonable costs cannot be assured. If we fail to maintain collaboration with our financial institution partners or to maintain sufficient capacity to facilitate loans to borrowers, our reputation, results of operations and financial condition may be materially and adversely affected.

The growth and success of our future operations depend on the availability of adequate funding to meet borrowers’ demands for loans on our platform. To maintain sufficient and sustainable funding to meet borrower demands, we need to keep expanding the network and securing a stable stream of funds from our financial institution partners.

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The availability of funding from our financial institution partners depends on many factors, some of which are beyond our control. Changes in the macroeconomic environment may impact the funding costs and the terms of our agreements with financial institution partners, and we may not be able to obtain sufficient and sustainable funding from them if the funding cost increases significantly. In addition, our competitors in the Credit-Tech industry may offer better terms to attract financial institutions away from us. We may not be able to maintain long-term business relationships with financial institution partners in this evolving market. For the year ended December 31, 2021 and the six months ended June 30, 2022, our top five financial institution partners contributed around 45.5% and 51.8% of total funding for the loans we facilitated. Our financial institution partners typically agree to provide funding to borrowers who meet their predetermined criteria, subject to their credit approval process. These agreements have fixed terms of typically one year. In addition, while our users' loan requests are usually approved if they fall within the parameters set agreed upon by us and our financial institution partners, our financial institution partners may implement additional requirements in their approval process outside of our control. Thus, there is no assurance that our financial institution partners could provide reliable, sustainable and adequate funding, because they could either decline to fund loans facilitated on our platform or decline to renew or renegotiate their participation in the funding programs.

In addition, if PRC laws and regulations impose more restrictions on our collaboration with financial institution partners, these financial institution partners will become more selective in choosing collaboration partners, which may drive up the funding costs and the competition among online lending platforms to collaborate with a limited number of financial institution partners. Pursuant to Internet Loans Interim Measures and the Circular of the General Office of the China Banking and Insurance Regulatory Commission on Further Standardizing the Internet Loans Business of Commercial Banks (《關於進一步規範商業銀行互聯網貸款業務的通知》), or the Internet Loans Circular, regional banks that carry out online lending business shall serve local customers, and are not allowed to conduct the online lending business beyond the local administrative area of their registered place, except those who have no physical business branch, conduct business primarily online as well as meet the other conditions prescribed by the CBIRC. If we fail to effectively match regional banks with sufficient local borrowers, we may lose them as funding sources, in which case our results of operations and profitability could be materially and adversely impacted. Furthermore, if the PRC government issues any laws and regulations that restrict or prohibit our collaboration with our financial institution partners, our collaboration with our financial institution partners may have to be terminated or suspended, which may materially and adversely affect our business, financial condition and results of operations.

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For example, on December 31, 2021, the PBOC and six other departments jointly issued the Measures for Administration of Online Marketing of Financial Products (Draft for comments) (《金融產品網絡營銷管理辦法(徵求意見稿)》) (the “Draft Online Marketing Measures”), which regulate online marketing of financial products by financial institutions or internet platform operators entrusted by such financial institutions. The Draft Online Marketing Measures prohibit third-party online platform operators from being involved in the sale process of financial products in a disguised way without the approval of financial regulatory authorities, including but not limited to interactive consultation with consumers on financial products, suitability assessment of consumers of financial products, signing of sale contracts, transfer of funds and participation in the income sharing of financial business. Our PRC Legal Adviser is of the view that these measures have not been formally adopted and currently do not affect our business and operations. If these measures were to be adopted in the current form, we may no longer be able to display financial products in current format on our mobile app to conduct online marketing, which may have a material adverse impact on our business, results of operations and future prospects. We will closely monitor the regulatory development and adjust our business operations from time to time to comply with relevant regulations.

We cannot assure you that our efforts to diversify funding sources would be successful or funding sources for the loans we facilitate will remain or become increasingly diversified in the future. If we become dependent on a small number of financial institution partners and any of them decide to not collaborate with us, change the commercial terms to the extent unacceptable to borrowers or limit the funding available on our platform, such constraints may materially limit our ability to facilitate loans and adversely affect borrower experience. Any of these occurrences could materially and adversely affect our business, financial condition, results of operations and cash flow.

Furthermore, we partner with Kincheng Bank, whose largest shareholder is 360 Group, across a full spectrum of services. Our collaboration with Kincheng Bank provides us the opportunities to explore and introduce innovative cooperation arrangements with potential financial institution partners. As of June 30, 2022, Kincheng Bank was our largest funding partner by outstanding loan balance. If Kincheng Bank is acquired by a third party not affiliated with us, or if its business, financial conditions or reputation deteriorates, we may not be able to maintain our current collaboration with it on reasonable terms or at all.

If our business arrangements with certain financial institution partners were deemed to violate PRC laws and regulations, our business and results of operations could be materially and adversely affected.

We have secured certain funding from financial institution partners through the channel of trusts and asset management plans in collaboration with certain trust companies and asset management companies.

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According to our cooperative arrangement with trust companies and asset management companies, each trust and asset management plan had a specified term. Financial institution partners invested in such trusts or asset management plans in the form of trust or asset management units, which entitled the financial institution partner to the return on investment with each unit. We were designated as the service provider for the trusts and asset management plans. If a credit application was approved, credit drawdown would be funded by the trusts or asset management plans to borrowers directly subject to the independent credit review of such trust companies or asset management companies. These trusts and asset management plans were identified as the lender under the loan agreements with borrowers. The trust and asset management plan remitted to the financial institution partners investment returns pursuant to the terms of the trust and plan that reflected funds initially provided by the financial institution partners. The investment gains would be distributed to the trust or asset management plan based on the actual loan interest. The trust company or asset management company, as appropriate, was responsible for administering the trust and was paid a service fee.

For the year ended December 31, 2021 and the six months ended June 30, 2022, trusts with total assets of RMB8.8 billion and RMB3.6 billion were set up to invest solely in loans on our platform, respectively. For the majority of the trusts, we are considered the primary beneficiary and thus consolidate such trusts’ assets, liabilities, results of operations and cash flows. Although we have not been part of the fund-raising process by the trusts, we cannot assure you that our provision of services to the trusts will not be viewed by the PRC regulators as violating any laws or regulations. If we are prohibited from cooperating with trust companies, our access to sustainable funding may be adversely impacted, which may further increase the funding cost of loans facilitated by us and affect our results of operations.

If our attempts to explore alternative funding initiatives were deemed to violate PRC laws and regulations, our business could be materially and adversely affected.

We have and expect to continue exploring alternative funding initiatives, including through standardized capital instruments such as the issuance of ABSs. We have been approved to list a total of RMB27 billion of ABSs on the Shanghai Stock Exchange and Shenzhen Stock Exchange and already issued RMB14.0 billion as of June 30, 2022. Pursuant to the Administrative Provisions on the Asset Securitization Business of Securities Companies and the Subsidiaries of Fund Management Companies (《證券公司及基金管理公司子公司資產證券化業務管理規定》) and its supporting rules and relevant laws and regulations (“**Enterprise Asset Securitization Regulations**”), an institution is entitled to establish an ABS plan as a originator for such scheme on the condition that it has legitimate ownership to the underlying transferred assets that are able to generate independent and predictable cash flow in compliance with relevant laws and regulations. However, the issuance of ABSs is subject to a variety of requirements under the relevant Enterprise Asset Securitization Regulations in the PRC, such as managers are required to be a securities company or a subsidiary of fund management company and the assets of the ABS plan shall be placed under custody of a commercial bank with the relevant business qualifications, or an asset custodian organization recognized by the CSRC. The laws and regulations applicable to ABS are still developing, and it remains uncertain as to the application and interpretation of such laws and regulations, particularly

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relating to the rapidly evolving Credit-Tech industry in which we operate. In addition, we rely on trust companies and other parties we collaborate with to secure the successful issuance of the ABSs. If our collaboration with such parties is interrupted or affected, our ability to utilize the remaining approved quota of issuing such ABS may be materially limited. If our attempts to issue ABSs under the current quota is limited, or our attempts to seek further approval on additional quota in ABS is rejected, our capability to secure funding with lower comprehensive cost may be limited, and our business and financial condition may be adversely impacted. During the validity period of the ABS plan, if we cannot maintain reasonable support for normal business activities, and provide the requisite assurance for generation of independent and predictable cash flow for the underlying transferred assets, it may have substantial impact on the investment value or price of ABSs.

If we fail to promote and maintain our brand in an effective and cost-efficient way, our business and results of operations may be harmed.

The Credit-Tech industry is still new to borrowers in China. Prospective borrowers may not be familiar with this market and may have difficulty distinguishing our products from those of our competitors. Convincing prospective borrowers of the value of our products is critical to increasing the number of transactions for borrowers and to the success of our business. We believe that developing and maintaining awareness of our brand effectively is critical to attracting and retaining prospective borrowers. This, in turn, depends largely on the effectiveness of our user acquisition strategy, our marketing efforts, our collaboration with financial institution partners and the success of the channels we use to promote our platform. If any of our current borrower acquisition strategies or marketing channels become less effective, more costly or no longer feasible, we may not be able to attract new borrowers in a cost-effective manner or convert prospective borrowers into active borrowers. Our collaboration with market-leading channel partners is essential to our user acquisition efforts. If such collaboration ceases or becomes less effective, for reasons attributable either to us or to our channel partners, we may face instant user acquisition pressure, and may need to incur additional costs to replace such partners for user acquisition, if we could replace them at all. Besides, if some of our channel partners were acquired or controlled by the competitors of 360 Group, our collaboration with such channel partners may be limited or severely and adversely impacted. We may not find new partners to replace our original ones.

Our efforts to build our brand have caused us to incur expenses, and it is likely that our future marketing efforts will require us to incur additional expenses. These efforts may not result in increased operating revenue in the immediate future or any increases at all, and even if they do, any increases in operating revenue may not offset the expenses incurred. If we fail to successfully promote and maintain our brand cost-effectively, our results of operations and financial condition would be adversely affected, and our ability to grow our business may be impaired.

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If our financial institution partners fail to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations, our business and results of operations could be materially and adversely affected.

In collaboration with our financial institution partners and payment companies, we have adopted various policies and procedures, such as internal controls and “know-your-customer” procedures, for anti-money laundering purposes. The Fintech Guidelines purport, among other things, to require internet financial service providers, including us, to comply with certain anti-money laundering requirements, including:

- the establishment of a borrower identification program;
- the monitoring and reporting of the suspicious transaction;
- the preservation of borrower information and transaction records; and
- the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. There is no assurance that our anti-money laundering policies and procedures will protect us from being exploited for money laundering purposes or that we will be deemed to be in compliance with applicable anti-money laundering implementing rules, if and when adopted, in light of the anti-money laundering obligations proposed to be imposed on us by the Fintech Guidelines. Any new requirement under money laundering laws could increase our costs and may expose us to potential sanctions if we fail to comply.

In addition, we rely on our third-party service providers, in particular, payment companies that handle the transfer of the repayment, to have their own appropriate anti-money laundering policies and procedures. If any of our third-party service providers fails to comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could become subject to regulatory intervention, which could have a material adverse effect on our business, financial condition and results of operations.

Our policies and procedures may not be completely effective in preventing other parties from using us, any of our financial institution partners or payment processors as a conduit for money laundering (including illegal cash operations) or terrorist financing without our knowledge. If we were to be associated with money laundering (including illegal cash operations) or terrorist financing, our reputation could suffer and we could become subject to regulatory fines, sanctions or legal enforcement, including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, all of which could have a material adverse effect on our financial condition and results of operations. Even if we, our financial institution partners and payment processors comply with the applicable anti-money laundering laws and regulations, we, our financial institution partners and payment processors may not be able to fully eliminate money laundering and other illegal or improper activities in light of the complexity and the secrecy of these activities. Any negative perception of the industry, such as that arises from any failure of other Credit-Tech service providers to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established and negatively impact our financial condition and results of operations.

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We need to engage guarantee companies to provide credit enhancement or additional comfort to our financial institution partners, and we recognize guarantee liabilities for accounting purposes. If we fail to source and engage a guarantee company to our financial institution partners' satisfaction at a reasonable price, our collaboration with our financial institution partners will deteriorate, and our results of operations may be adversely and severely impacted. If our guarantee liability recognition fails to address our current status, we may face unexpected changes to our financial conditions.

To comply with Circular 141 and the Supplementary Financing Guarantee Provisions, we have engaged guarantee companies to provide credit enhancement to our financial institution partners upon their request, and two of our VIEs, Fuzhou Financing Guarantee and Shanghai Financing Guarantee, have obtained the license of conducting guarantee services. Even though we use licensed guarantee companies of our own to provide service to our financial institution partners, we may continue to engage third-party insurance companies or guarantee companies to satisfy the needs of our business. We cannot, however, assure you that our guarantee companies could provide satisfactory service to our financial institution partners from time to time, or that we will always be able to source and engage guarantee companies to our financial institution partners' satisfaction. If we fail to source and engage guarantee companies to our financial institution partners' satisfaction at a reasonable price, our collaboration with our financial institution partners will deteriorate or even be suspended, and our results of operations will be materially and adversely affected. It is also possible that we have to pay a service fee to the third-party guarantee company that exceeds the reasonable market price, which will materially and adversely affect our results of operations.

As we provide guarantee services through the licensed Consolidated Affiliated Entities to our financial institution partners, or back-to-back guarantee to the third-party guarantee companies, we recognize guarantee liabilities at fair value from accounting perspective, which incorporates the expectation of potential future payments under the guarantee and take into both non-contingent and contingent aspects of the guarantee. As of December 31, 2019, 2020, and 2021 and June 30, 2022, we recorded guarantee liabilities-stand ready of RMB2,212 million, RMB4,173 million, RMB4,818 million and RMB4,539 million (US\$678 million), respectively. As of December 31, 2019, 2020, and 2021 and June 30, 2022, we recorded guarantee liabilities-contingent of RMB735 million, RMB3,543 million, RMB3,285 million and RMB3,320 million (US\$496 million), respectively. We have established an evaluation process designed to determine the adequacy of our impairment allowances and guarantee liabilities. While this evaluation process uses historical and other objective information and we have engaged a third-party independent valuer for the task, it is also dependent on our subjective assessment based upon our estimates and judgment. Actual losses are difficult to forecast, especially if such losses stem from factors beyond our historical experience. Given that the Credit-Tech industry is rapidly evolving, and is subject to various factors beyond our control, such as shifting trends in the market, regulatory framework, and overall economic conditions, we may not be able to accurately forecast the delinquency rate of our current target user base due to the lack of sufficient data. Therefore, our actual delinquency rate may be higher than we expected. If our credit assessment and expectations differ from actual circumstances or if the quality of the loans facilitated by us deteriorates, our guarantee liabilities may be insufficient to absorb actual credit losses and we may need to set aside additional provisions, which could have a material adverse effect on our business, financial condition and results of operations.

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We are subject to credit risks associated with our accounts receivable, contract assets, financial assets receivables and loans receivable.

We have a large balance of accounts receivable and contract assets as well as financial assets receivable and loans receivable during the Track Record Period. As of December 31, 2019, 2020 and 2021, and June 30, 2022, the current portion of our accounts receivable and contract assets, net was RMB2,332 million, RMB2,395 million, RMB3,097 million and RMB3,499 million (US\$522 million), respectively, and the non-current portion was RMB20 million, RMB308 million, RMB223 million and RMB292 million (US\$44 million), respectively. As of the same dates, the current portion of our financial assets receivable, net was RMB1,913 million, RMB3,565 million, RMB3,806 million and RMB3,619 million (US\$540 million), respectively, and the non-current portion was RMB59 million, RMB645 million, RMB598 million and RMB683 million (US\$102 million), respectively. Also as of the same dates, the current portion of our loans receivable, net was RMB9,240 million, RMB7,501 million, RMB9,844 million and RMB10,850 million (US\$1,620 million), respectively, and the non-current portion was nil, RMB88 million, RMB2,859 million and RMB3,658 million (US\$546 million), respectively. See "Financial Information – Working Capital and Discussion of Certain Key Balance Sheet Items" for details of the balance of our receivables. Such receivables and contract assets mainly arise from our on-balance sheet loans and off-balance sheet loans. See "Financial Information – On-and Off-balance Sheet Treatment of Loans" for details of the risk taking arrangements for on-and off-balance sheet loans. We have established an allowance for uncollectible receivables and contract assets based on estimates, which incorporates historical delinquency rate by vintage and other factors surrounding the credit risk of specific underlying loan portfolio. We evaluate and adjust our allowance for uncollectible receivable and contract assets on a quarterly basis or more often as necessary. The related expenses are recorded as "provision for accounts receivable and contract assets," "provision for financial assets receivable" and "provision for loans receivable." While our allowance and provision take into account historical and other objective information, it is also dependent on our subjective assessment based upon our estimates and judgment. Actual credit risk is difficult to forecast, especially if such risks stem from factors beyond our historical experience, especially unforeseen risk with no historical comparable, such as the recent resurgence of COVID-19. If there is a significant rise in delinquency rate, which was impacted by a number of factors some of which are beyond our control, including the macroeconomic condition of China, or our provisions or allowances are insufficient to cover the credit loss, our business, results of operations and financial condition would be materially and adversely impacted.

If loan products facilitated by us do not achieve sufficient market acceptance, our financial results and competitive position will be harmed.

We have devoted significant resources to and will continue to put an emphasis on upgrading and marketing our existing loan products and enhancing their market awareness. We may also incur expenses and expend resources up front to develop and market new loan products and financial services that incorporate additional features, improve functionality or otherwise make our platform more attractive to borrowers. New loan products and financial services must achieve high levels of market acceptance in order for us to recoup our

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investments in developing and marketing them. To achieve market acceptance, it is essential for us to maintain and enhance our ability to match and recommend suitable financial products for prospective borrowers, the effectiveness of our curation process and our ability to provide relevant and timely content to meet changing borrower needs. If we are unable to respond to changes in borrower preference and deliver satisfactory and distinguishable borrower experience, borrowers and prospective borrowers may switch to competing platforms or obtain financial products directly from their providers. As a result, borrower access to and borrower activity on our platform will decline, our services and solutions will be less attractive to financial service providers and our business, financial performance and prospects will be materially and adversely affected.

Our existing and new loan products and financial services could fail to attain sufficient market acceptance for many reasons, including:

- prospective borrowers may not find the features of loan products facilitated by us, such as the prices and credit limits, competitive or appealing;
- we may fail to predict market demand accurately and provide products and services that meet this demand in a timely fashion;
- borrowers and financial institution partners using our platforms may not like, find useful or agree with the changes we make;
- there may be defects, errors or failures on our platforms;
- there may be negative publicity about loan products facilitated by us, or our platform's performance or effectiveness;
- regulatory authorities may take the view that the new products or platform changes do not comply with PRC laws, regulations or rules applicable to us; and
- there may be competing products or services introduced or anticipated to be introduced by our competitors. If our existing and new loan products do not maintain or achieve adequate acceptance in the market, our competitive position, results of operations and financial condition could be materially and adversely affected.

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The AI-powered tools that we deploy may not generate accurate results and thereby may affect our collaboration with financial institution partners. Our deployment of the AI-powered tools is also subject to evolving PRC laws and regulations, and any non-compliance or perceived non-compliance of which may affect our brand, operations and financial positions.

We deploy AI-powered tools, such as Argus Engine, in our loan facilitation and post-loan facilitation services. Any inaccuracies in our credit scoring or risk modeling process due to the deployment of AI-powered tools may cause us not able to recommend prospective borrowers that best fit the financial institution partners' risk appetites, which, as a result, may be used as a factor for the financial institution partners to evaluate the quality of our services. If that happens, our collaboration with financial institution partners and our business prospects and financial results may be adversely affected. Moreover, our deployment of AI-powered tools is subject to evolving PRC laws and regulations on data security, privacy and cybersecurity, among others. Any non-compliance or perceived non-compliance with the relevant laws and regulations, including any potentially biased or inappropriate decisions made by our AI-powered tools, may subject us to negative publicity, lawsuits or administrative penalties that may adversely affect our brand, operations and financial positions.

We face increasing competition, and if we do not compete effectively, our operating results could be harmed.

The Credit-Tech industry in China is highly competitive and evolving. We primarily face competition from Credit-Tech platforms that target the consumer Credit-Tech market. Our competitors operate with different business models, have different cost structures or participate selectively in different market segments. They may ultimately prove more successful or more adaptable to new regulatory, technological and other developments. Some of our current and potential competitors have significantly more financial, technical, marketing and other resources than we do, and may be able to devote greater resources to the development, promotion, sale and support of their platforms. Our competitors may also have longer operating histories, more extensive user base, larger amounts of data, greater brand recognition and loyalty, and broader partner relationships than we do. For example, traditional financial institutions may invest in technology and enter into the consumer Credit-Tech market. Experienced in financial product development and risk management, and being able to devote greater resource to the development, promotion, sale and technical support, they may gain an edge in the competition against us. Additionally, a current or potential competitor may acquire one or more of our existing competitors or form a strategic alliance with one or more of our competitors. Any of the foregoing could adversely affect our business, results of operations, financial condition and future growth.

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Our competitors may be better at developing new products, responding to new technologies, charging lower fees on loans and undertaking more extensive marketing campaigns. When new competitors seek to enter our target market, or when existing market participants seek to increase their market share, they sometimes undercut the pricing or terms prevalent in that market, which could adversely affect our market share or ability to exploit new market opportunities. Also, since the Credit-Tech industry in China is fast evolving, prospective borrowers may not fully understand how our platform works. Our pricing and terms could deteriorate if we fail to act to meet these competitive challenges.

Furthermore, in response to more stringent PRC laws and regulations regarding cash loans, more Credit-Tech platforms may expand their services and products to scenario-based lending, including partnering with e-commerce platforms, which may drive up the competition among Credit-Tech platforms. Such intensified competition may increase our operating costs and adversely affect our results of operations and profitability. To the extent that our competitors are able to offer more attractive terms to our business partners, such business partners may choose to terminate their relationships with us or request us to accept terms matching our competitors'.

In addition, our competitors may implement certain procedures to reduce their fees in response to the current or potential PRC regulations on interest rates and fees charged by Credit-Tech platforms. Borrowers are generally interest sensitive with less brand loyalty. We may not succeed in maintaining user stickiness if we fail to provide products with competitive prices. If we apply prices below the commercially reasonable level, our results of operations and financial conditions may be adversely impacted. If we are unable to compete with our competitors, or if we are forced to charge lower fees due to competitive pressures, we could experience reduced revenues or our platforms could fail to achieve market acceptance, any of which could materially and adversely affect our business and results of operations.

Our operations have been impacted by the outbreak of COVID-19, which may continue and may adversely affect our financial performance.

Since its hit in early 2020, the COVID-19 has adversely impacted the economy of China and the economic condition of small and micro-sized businesses, especially offline businesses, and to a greater or lesser extent resulted in reduced spending, especially on discretionary consumption. We derive revenue from loan products facilitated through our platform. A reduction in discretionary consumption may adversely affect demand for consumer and SME loan products. In addition, downturn in the economy and previous suspension of business activities across various sectors might cause an increase in default of the loans facilitated through our platform as they are likely to lead to a rise in unemployment and may weaken borrowers' willingness and ability to repay their debts. The increased defaults could in turn result in enhanced risks and financial losses to our financial institution partners and us. 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. The spread of COVID-19 had been substantially controlled in China in late 2020. However, since 2021, there has been a resurgence of COVID-19 cases caused by new variants such as Delta and Omicron in multiple cities in China, as well as across the world. Restrictions have been re-imposed in certain cities to combat such outbreaks and emerging variants of the

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virus. 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.

If our ability to collect delinquent loans is impaired, or if there is actual or perceived misconduct in our collection efforts, our business and results of operations might be materially and adversely affected.

Our post-facilitation services primarily include collection services for our financial institution partners. We deploy a combination of measures to collect loan repayments, including text messages, mobile app push notices, AI initiated collection calls, human collection calls, emails or legal letters. We also engage certain third-party collection service providers from time to time, particularly after 60 days of delinquency. If either our or our third-party service providers' collection methods, such as phone calls and text messages, are not effective and we fail to respond quickly and improve our collection methods, our delinquent loan collection rate may decrease.

While we have implemented and enforced policies and procedures relating to collection activities by us and third-party service providers, if those collection methods were to be viewed by the borrowers or regulatory authorities as harassments, threats or as other illegal conducts, we may be subject to lawsuits initiated by the borrowers or prohibited by the regulatory authorities from using certain collection methods. If this were to happen and we fail to adopt alternative collection methods in a timely manner or the alternative collection methods are proven to be ineffective, we might not be able to maintain our delinquent loan collection rate, and the financial institution partners' confidence in our platform may be negatively impacted. If any of the foregoing takes place and impairs our ability to collect delinquent loans, the loan facilitation volume on our platform will decrease, and our business and the results of operations could be materially and adversely affected.

If we cannot respond or adapt to the rapid technological development, our business, financial condition and results of operations would be materially and adversely affected.

The business environment in which we operate is characterized by rapidly changing technology, evolving industry standards and regulations, new mobile applications and protocols, new products and services, and changing user demands and trends. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful for our business, and respond to technological development and evolving industry standards and regulations in a cost-effective and timely manner. As a result, we must continue to invest significant resources in technology infrastructure, and research and development to enhance our technology capabilities. We cannot assure you that we will be successful in adopting and implementing new technologies. If we are unable to respond or adapt in a cost-effective and timely manner to technological development, our business, financial condition and results of operations could be materially and adversely affected.

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Any harm to our brand or reputation or any damage to the reputation of the Credit-Tech industry may materially and adversely affect our business and results of operations.

Enhancing the recognition and reputation of our brand is critical to our business and competitiveness. Factors that are vital to this objective include but are not limited to our ability to:

- maintain the quality and reliability of our platform;
- provide users with a superior experience on our platform;
- enhance and improve our Argus Engine;
- effectively manage and resolve users complaints; and
- effectively protect personal information and privacy of users.

Any negative allegation made by the media or other parties about our Company, including, but not limited to our management, business, compliance with law, financial condition or prospects, whether meritless or not, could severely hurt our reputation and harm our business and operating results. As China's Credit-Tech industry is developing and the regulatory framework for this market is also evolving, negative publicity about this industry may arise from time to time. Negative publicity about China's Credit-Tech industry in general may also have a negative impact on our reputation, regardless of whether we have engaged in any inappropriate activities.

In addition, certain factors that may adversely affect our reputation are beyond our control. Negative publicity about our partners, outsourced service providers or other counterparties, such as negative publicity about their debt collection practices and any failure by them to adequately protect the information of borrowers, to comply with applicable laws and regulations or to otherwise meet required quality and service standards could harm our reputation. Furthermore, any negative development in the Credit-Tech industry, such as bankruptcies or failures of other platforms, and especially when such bankruptcies or failures affect a large number of businesses, or negative perception of the industry as a whole, such as that arises from the alleged failure of other platforms to detect or prevent money laundering or other illegal activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established and negatively impact our ability to attract new borrowers. For instance, on March 15, 2019, CCTV's "315 Night," a show on consumer rights protection, reported that certain financial products offered by third-party financial service providers on a financing platform allegedly infringed consumers' rights. The media report may have affected consumers' perception of the whole Credit-Tech industry, and this perception may, in turn, adversely affect our business and results of operations. Negative developments in the Credit-Tech industry, such as widespread borrower defaults, fraudulent behavior or the closure of other online platforms, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business

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activities that may be conducted by online platforms like ours. As we are the strategic partner of 360 Group, any negative allegation about 360 Group may also have an adverse impact on us. For example, on March 15, 2021, CCTV's "315 Night" reported certain allegedly false medical advertising that appeared on the 360 Browser that were posted onto the platform by 360 Browser's advertising agents. As 360 Browser is operated by our affiliate and we share the 360 brand, such an event and its follow-on consequences may negatively impact our reputation and the public's perception of us. Any of the foregoing occurrences may materially and adversely affect our business and results of operations.

Misconduct by third-party collection service providers may adversely impact our brand, reputation and results of operations.

We adopt different collection channels, including text messages, mobile app push notices, AI-initiated collection calls, human collection calls, emails or legal letters during the collection process. We also outsource our collection to third-party collection service providers from time to time, particularly after 60 days of delinquency. To fulfill the relevant compliance requirements, we have adopted and enforced comprehensive collection policies and procedures, including close monitoring our third-party service providers, to ensure that all our collection practices are in compliance with current laws and regulations. See "Business – Credit Assessment – Collection" for more details. However, we cannot assure you that we will be able to identify and deter misconduct by the third-party collection service providers at all times. If any of the third-party collection service providers with which we collaborate commit inappropriate conducts during the collection process, we could be liable for damages or subject to regulatory actions or penalties. Additionally, any misconduct or perceived misconduct in the collection activities by the third-party collection service providers, such as the perception that the collection activities are aggressive, may have a negative impact on our brand and reputation and thereby affect our results of operations.

Misconduct, errors and failure to function by our employees, third-party service providers or borrowers could harm our business and reputation.

We are exposed to many types of operational risks, including the risk of misconduct and errors by our employees and third-party service providers. Our business depends on our employees and third-party service providers to interact with prospective borrowers, process large numbers of transactions and support the loan collection process, all of which involve the use and disclosure of personal information. We could be materially adversely affected if transactions were redirected, misappropriated or otherwise improperly executed, if personal information was disclosed to unintended recipients or if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human error, purposeful sabotage or fraudulent manipulation of our operations or systems. In addition, it is not always possible to identify and deter misconduct or errors by employees or third-party service providers, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. If any of our employees or third-party service providers take, convert or misuse funds, documents or data or fail to follow protocol when interacting with borrowers, such as during the collection process, we could be liable for

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damages and subject to regulatory actions and penalties. We could also be perceived to have originated or participated in the illegal misappropriation of funds, documents or data, or the failure to follow protocol, and therefore be subject to civil or criminal liability. See also “– Our business is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity, many of which are subject to change and uncertain interpretation. Any changes in these laws and regulations have caused and could continue to cause changes to our business practices and increase costs of operations, and any security breaches or our actual or perceived failure to comply with such laws and regulations could result in claims, penalties, damages to our reputation and brand, declines in user growth or engagement, or otherwise harm our business, results of operations and financial condition.”

In addition, the current regulatory regime for debt collection in the PRC remains unclear. We cannot assure you that the collection personnel that we employ or collaborate with will not engage in any misconduct as part of their collection efforts. Any such misconduct by our collection personnel or the perception that our collection practices are considered to be aggressive and not compliant with the relevant laws and regulations in the PRC may result in harm to our reputation and business, which could further reduce our ability to collect payments from borrowers, lead to a decrease in the willingness of prospective borrowers to apply for and utilize our credit or fines, penalties, administrative investigations or even criminal liabilities imposed by the relevant regulatory authorities, any of which may have a material adverse effect on our results of operations. See also “– Misconduct by third-party collection service providers may adversely affect our brand, reputation and results of operations.”

Furthermore, we rely on certain third-party service providers, such as user acquisition partners, marketing and brand promotion agencies, third-party payment platforms and collection service providers, to conduct our business. We enter into collaboration contracts with fixed terms with such service providers. However, we cannot assure you that we can renew such collaboration agreements once they expire, or that we can renew such agreements with the terms we desire. Such service providers may also be demanded by their investors not to work with us, or form alliances to seek better terms dealing with us. In addition, if these service providers failed to function properly or terminated the cooperation, we cannot assure you that we could find an alternative in a timely and cost-efficient manner, or at all. Any of these occurrences could result in our diminished ability to operate our business, potential liability to borrowers, inability to attract borrowers, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations. In the meanwhile, we cannot assure you that third-party service providers would comply with our compliance requirements at all times and would not commit wrongdoings or misconduct especially in carrying out offline marketing and promotions, failure of which may result in us facing user complaints, suffering brand and reputation damages and being subject to administrative actions. Neither can we guarantee that borrowers would not commit wrongdoings or misconduct, which, if occurs, could cause harm to our brand and reputation.

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Fluctuations in interest rates could negatively affect our loan facilitation volume.

Most of the loans facilitated through our platform are issued with fixed interest rates. Fluctuations in the interest rate environment may discourage financial institution partners to fund our platform, which may adversely affect our business. Meanwhile, if we fail to respond to the fluctuations in interest rates in a timely manner and reprice loan products facilitated by us, these loan products may become less attractive to borrowers.

We are subject to risk of recoverability of deferred tax assets.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our deferred tax assets amounted to RMB697 million, RMB1,399 million, RMB835 million and RMB1,060 million (US\$158 million), respectively. We periodically assess the probability of the realization of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, these deferred tax assets can only be recognized to the extent that it is probably that future taxable profits will be available, against which the deferred tax assets can be utilized. However, we cannot assure you that our expectation of future earnings will materialize, due to factors beyond our control such as general economic conditions, or, negative development of the regulatory environment, in which case we may not be able to recover our deferred tax assets, which in turn could have a material adverse effect on our financial condition and results of operations.

If we fail to complete, obtain or maintain the value-added telecommunications license, other requisite license, or approvals or filings in China, our business, financial condition and results of operations may be materially and adversely affected.

PRC regulations impose sanctions for engaging in internet information services of a commercial nature without having obtained an internet content provider license, or the ICP license, and sanctions for engaging in the operation of online data processing and transaction processing without having obtained a value-added telecommunications service license, or the VATS license, for online data processing and transaction processing, or ODPTP license (ICP and ODPTP are both sub-sets of value-added telecommunications business). These sanctions include corrective orders and warnings from the PRC telecommunication administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the suspension of relevant business and the websites and mobile apps may be ordered to cease operation. Nevertheless, the interpretation of such regulations and PRC regulatory authorities' enforcement of such regulations in the context of the Credit-Tech industry remains uncertain; it is unclear whether Credit-Tech service providers like us are required to obtain ICP license, or any other kind of VATS licenses. While one of our VIEs, Shanghai Qiyu has been operating Credit-Tech business, communicating with Shanghai Communications Administration to obtain the ICP license and preparing for the application materials since its inception in 2016, it obtained its ICP license in April 2021 primarily due to the increasingly stringent licensing and regulatory environment. In particular, the delay for Shanghai Qiyu in obtaining its ICP license was primarily because (i) the governmental authorities adopted a prudent attitude in general towards online consumer finance business and other finance-related business in the substantive

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license application review process, and (ii) the beneficial ownership structure of Shanghai Qiyu was complicated, which required Shanghai Qiyu to spend substantial time in communicating with the governmental authorities during the license application process. The online information services offered through the online platform is a material component of our operations, which generates the online traffic and users for our services. If our past practice were deemed to be internet telecommunications business operations without VATS licenses or we were to be required to obtain additional VATS license, the governmental authorities may levy fines up to five times of the illegal income or RMB1 million, confiscate our income, revoke our business licenses, or require us to discontinue our relevant business, and our business, results of operations, financial condition, and prospects may be materially and adversely affected.

We believe Shanghai Qiyu's exposure to the risk of material administrative penalties is remote based on our PRC Legal Adviser's consultation with an officer of the MIIT in September 2021, whom our PRC Legal Adviser confirms to be competent to provide the relevant confirmation, and in light of the fact that Shanghai Qiyu has obtained the ICP license and Shanghai Qiyu has not been subject to any administrative penalties in this regard during the Track Record Period and up to the Latest Practicable Date. Based on the abovementioned PRC Legal Adviser's view, our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations.

Given the evolving regulatory environment of the Credit-Tech industry and value-added telecommunications business, we cannot rule out the possibility that the PRC government authorities will explicitly require any of our VIEs or subsidiaries of our VIEs to obtain additional ICP licenses, ODPTP licenses or other VATS licenses, or issue new regulatory requirements to institute a new licensing regime for our industry. We could be found in violation of any future laws and regulations, or of the laws and regulations currently in effect due to changes in the relevant authorities, or interpretation of these laws and regulations. We cannot assure you that we would be able to obtain or maintain any required license, regulatory approvals or filings in a timely manner, or at all, which would subject us to sanctions, such as the imposition of fines and the discontinuation or restriction of our operations or other sanctions as stipulated in the new regulatory rules, and materially and adversely affect our business and impede our ability to continue our operations.

Any significant disruption in service on our platform or in our computer systems, including events beyond our control, could prevent us from processing loans on our platform, reduce the attractiveness of our platform and result in a loss of borrowers.

In the event of a platform outage and physical data loss, the performance of our platform and solutions would be materially and adversely affected. The satisfactory performance, reliability and availability of our platform, solutions and underlying technology infrastructure are critical to our operations and reputation and our ability to retain existing and attract new users and financial service providers. Much of our system hardware is hosted in a leased facility located in Beijing. We also maintain a real-time backup system in the same facility and

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a remote backup system in a separate facility. Our operations depend on our ability to protect our systems against damage or interruption from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or attempts to harm our systems, criminal acts, and similar events. If there is a lapse in service or damage to our leased facilities, we could experience interruptions and delays in our service and may incur additional expense in arranging new facilities.

Any interruptions or delays in the availability of our platform or solutions, whether as a result of a third-party or our error, natural disasters or security breaches, whether accidental or willful, could harm our reputation and our relationships with users and financial service providers. Additionally, in the event of damage or interruption, we have no insurance policy to adequately compensate us for any losses that we may incur. Our disaster recovery plan has not been tested under actual disaster conditions, and we may not have sufficient capacity to recover all data and services in the event of an outage. These factors could damage our brand and reputation, divert our employees' attention and subject us to liability, any of which could adversely affect our business, financial condition and results of operations.

Our platform and internal systems rely on software that is highly technical, and if it contains undetected errors, our business could be adversely affected.

Our platform and internal systems rely on software that is highly technical and complex. In addition, our platform and internal systems depend on the ability of such software to store, retrieve, process and manage immense amounts of data. The software on which we rely contained, and may now or in the future contain, undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software on which we rely may result in a negative experience for borrowers and financial institution partners, delay introductions of new features or enhancements, result in errors or compromise our ability to protect user data or our intellectual property. Any errors, bugs or defects discovered in the software on which we rely could result in harm to our reputation, loss of borrowers or financial institution partners, loss of revenue or liability for damages, any of which could adversely affect our business and financial results.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We regard our trademarks, domain names, software copyrights, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark and trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. See "Business – Intellectual Properties" and "Regulatory Overview – Laws and Regulations relating to Intellectual Property." However, we cannot assure you that any of our intellectual property rights would not be challenged, invalidated or circumvented, or such intellectual property will be sufficient to provide us with competitive advantages. In addition, other parties may misappropriate our intellectual property rights, which would cause us to suffer economic or reputational damages. Because of the rapid pace of technological change, we cannot assure you

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that all of our proprietary technologies and similar intellectual property will be patented in a timely or cost-effective manner, or at all. Furthermore, parts of our business rely on technologies developed or licensed by other parties, or co-developed with other parties, and we may not be able to obtain or continue to obtain licenses and technologies from these other parties on reasonable terms, or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly, and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and in a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Some aspects of our platform include open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Aspects of our platform include software covered by open source licenses. Open source license terms are often ambiguous, and there is little or no legal precedent governing the interpretation of many of the terms of certain of these licenses. Therefore, the potential impact of such terms on our business is somewhat unknown. If portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and loan products. There can be no assurance that efforts we take to monitor the use of open source software to avoid uses in a manner that would require us to disclose or grant licenses under our proprietary source code will be successful, and such use could inadvertently occur. This could harm our intellectual property position and have a material adverse effect on our business, results of operations, cash flow and financial condition. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with the use of open source software cannot be eliminated, and could adversely affect our business.

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We may be subject to intellectual property infringement claims, which may be costly to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights held by other parties. We may from time to time in the future become subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other parties' trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights that are infringed by our products or other aspects of our business without our awareness. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits. If we are ruled against in any of these cases, we may be required to redesign or suspend our services, liable for substantial royalty or licensing fees or incur substantial amounts to satisfy judgments or settle claims or lawsuits. Any of the foregoing occurrences could materially and adversely affect our business, results of operations, financial condition, cash flows, reputation and the price of our securities. For example, the trademarks and trade names we use, "360," was being challenged by a third party, which claimed that our use of the "360" trademark infringed its rights. In addition, the owner of the "360" trademarks, which is a wholly owned subsidiary of 360 Group, was involved in several legal proceedings, in which the effectiveness of the 360 trademarks was challenged. As of the Latest Practicable Date, the case disputing our right to use the "360" trademarks and trade names has been settled by the parties involved, and the effectiveness of the relevant "360" trademarks registered by 360 Group has been upheld in courts. To prevent the potential disruptive impact these and similar disputes may have on our business and operations, 360 Group has also registered several new 360 trademarks for our use. However, we cannot guarantee that we or 360 Group will not face other proceedings or disputes in connection with the "360" trademarks and tradenames and their use in the future.

Additionally, the application and interpretation of China's intellectual property right laws and the procedures and standards for granting trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business and results of operations may be materially and adversely affected.

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Any failure to comply with PRC property laws and relevant regulations regarding certain of our leased premises may negatively affect our business, results of operations and financial condition.

We have not registered our lease agreements with the relevant government authorities. Under the relevant PRC laws and regulations, we may be required to register and file with the relevant government authority executed lease agreements. The failure to register the lease agreements for our leased properties will not affect the validity of these lease agreements, but the competent housing authorities may order us to register the lease agreements in a prescribed period of time and impose a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease if we fail to complete the registration within the prescribed timeframe.

Failure to comply with the PRC Social Insurance Law and the Regulation on the Administration of Housing Provident Funds may subject us to fines and other legal or administrative sanctions.

Companies registered and operating in China are required under the PRC Social Insurance Law (latest amended in 2018) and the Regulations on the Administration of Housing Funds (latest amended in 2019) to, apply for social insurance registration and housing fund deposit registration within 30 days of their establishment, and to pay for their employees different social insurance including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to the extent required by law. During the Track Record Period, one of our PRC subsidiaries did not complete the housing provident fund registration in a timely manner and engaged a third-party human resources agency to pay social insurance premium and housing provident funds for certain of our employees. As of the Latest Practicable Date, we have completed the housing provident fund registration for such subsidiary. As the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practices may be deemed to be non-compliant with such laws and regulations in China, which, if occurs, may subject us to obligations to provide additional compensation to our employees, labor disputes or government investigations. As a result, our business, financial condition and results of operations could be adversely affected. Our PRC Legal Adviser has consulted with the relevant local authorities, which confirmed that such arrangement is practically acceptable. Nevertheless, there is no assurance that we will not be ordered by the competent labor authorities for rectification and failure to comply with such orders may subject us to administrative fines.

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Some of the loans facilitated through our platform are funded by and disbursed indirectly through trusts under trust arrangements among financial institution partners, trust companies and us. If all or part of the funds in the trusts are not disbursed to borrowers as loans and the funds in the trusts do not generate the expected returns to the financial institution partners within a specified time frame, we could be obligated to make up the difference between the expected return and the actual return. As a result, our financial conditions may be adversely affected.

As mutually agreed upon by us and a small number of financial institution partners pursuant to their internal business requirements and procedures, some of the loans facilitated through our platform are funded by and disbursed indirectly through trusts, which also provide us with more flexibility to utilize the funds from the trusts for loan facilitation within the specified time frame and are in line with the industry norms. For such trust arrangements, we assume variable economic benefits or losses of the trusts. Because the financial institutions partners are typically entitled to receive repayment of the funds initially provided plus return from the trusts under the trust arrangements, if all or part of the funds in the trusts are not disbursed to borrowers as loans and do not generate the expected return to the financial institution partners within a specified time frame, we could be obligated to make up the difference between the expected return and the actual return to the financial institution partners. During the Track Record Period, there had not been any such difference in return and we had not been obligated to pay the financial institution partners any such difference. However, we cannot assure you that we will not be obligated to make up any such difference in the future. If the foregoing occurs in the future, our financial conditions may be adversely affected.

Our business depends on the continued efforts of our management. If one or more of our key executives were unable or unwilling to continue in their present positions, our business may be severely disrupted.

Our business operations depend on the continued services of our management, particularly the executive officers named in this document and teams in charge of our risk management and product development, as well as collaboration with financial institution partners. While we have provided different incentives to our management, we cannot assure you that we can continue to retain their services. If one or more of our management were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel. In addition, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that no member of our management team will join our competitors or form a competing business, or disclose confidential information to the public. If any dispute arises between our current or former officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

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From time to time we may evaluate and potentially consummate strategic investments or acquisitions, which could require significant management attention, disrupt our business and adversely affect our financial results.

We may evaluate and consider strategic investments, combinations, acquisitions or alliances to further increase the value of our platform. These transactions could be material to our financial condition and results of operations if consummated. If we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction, and even if we do consummate such a transaction, we may be unable to realize the envisaged benefits or avoid the difficulties and risks of such a transaction.

Strategic investments or acquisitions will involve risks commonly encountered in business relationships, including:

- difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, rights, platforms, products and services of the acquired business;
- the inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits;
- difficulties in retaining, training, motivating and integrating key personnel;
- the diversion of management's time and resources from our daily operations;
- difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;
- difficulties in retaining relationships with borrowers, employees and suppliers of the acquired business;
- risks of entering markets in which we have limited or no prior experience;
- regulatory risks, including remaining in good standing with existing regulatory bodies or receiving any necessary pre-closing or post-closing approvals, as well as being subject to new regulators with oversight over an acquired business;
- the assumption of contractual obligations that contain terms that are not beneficial to us, require us to license or waive intellectual property rights or increase our risk of liability;
- the failure to successfully further develop the acquired technology;
- liability for activities of the acquired business before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;

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- potential disruptions to our ongoing businesses; and
- unexpected costs and unknown risks and liabilities associated with strategic investments or acquisitions.

We may not make any investments or acquisitions. Even if we do, any such future investments or acquisitions may not be successful, may not benefit our business strategy, may not generate sufficient revenues to offset the associated acquisition costs or may not otherwise result in the intended benefits. In addition, we cannot assure you that any future investment in or acquisition of new businesses or technology will lead to the successful development of new or enhanced loan products and services or that any new or enhanced loan products and services, if developed, will achieve market acceptance or prove to be profitable.

If we fail to develop and maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on the company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2021. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our Shares and/or ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Our quarterly results may fluctuate and may not fully reflect the underlying performance of our business.

Our quarterly results of operations, including the levels of our net revenue, operating cost and expenses, net (loss)/income and other key metrics may vary in the future due to a variety of factors, some of which are beyond our control, and period-to-period comparisons of our operating results may not be meaningful, especially given our limited operating history. Accordingly, the results for any one quarter are not necessarily an indication of future performance. Fluctuations in quarterly results may adversely affect the price of our Shares and/or ADSs.

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In addition, we may experience seasonality in our business, reflecting seasonal fluctuations in internet usage and traditional personal consumption patterns, as borrowers typically use their borrowing proceeds to finance their personal consumption needs. While our rapid growth has somewhat masked this seasonality, our results of operations could be affected by such seasonality in the future.

Competition for employees is intense, and we may not be able to attract and retain the qualified and skilled employees needed to support our business.

We believe our success depends on the efforts and talent of our employees, including risk management, software engineering, financial and marketing personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled technical, risk management and financial personnel is extremely intense. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Some of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment.

In addition, we invest significant time and expenses in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements, and our ability to operate our platform could diminish, resulting in a material adverse effect to our business.

Increases in labor costs in the PRC may adversely affect our business and results of operations.

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC are expected to continue to increase. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to control our labor costs or pass on these increased labor costs to our users or financial institution partners by increasing the fees for our services, our financial condition and results of operations may be adversely affected.

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We may not have sufficient business insurance coverage.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies in more developed economies. Currently, we do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured business disruptions may result in our incurrence of substantial costs and the diversion of resources, which could have an adverse effect on business, our results of operations and financial condition.

We and certain of our current and former directors or officers were, and in the future may be, named as defendants in putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.

We and certain of our current and former directors or officers were named as defendants in a putative shareholder class action filed in federal court, captioned *In re 360 DigiTech, Inc. Securities Litigation*, No. 1:21-cv-06013 (U.S. District Court for the Southern District of New York, amended complaint filed on January 14, 2022). This case was purportedly brought on behalf of a class of persons who purchased our securities between April 30, 2020 and July 8, 2021 and who allegedly suffered damages as a result of alleged misstatements and omissions in our public disclosure documents in connection with our compliance and data collection practices. On January 14, 2022, Lead Plaintiff filed an Amended Complaint. On March 15, 2022, we filed a motion to dismiss the Amended Complaint. Briefing on the motion to dismiss was completed on May 31, 2022. In July 2022, the Court granted our motion to dismiss the Amended Complaint without prejudice, and granted Plaintiffs leave to replead by September 26, 2022. On September 26, 2022, Lead Plaintiff notified the Court that he does not intend to file a Second Amended Complaint. The court entered an order of judgment in favor of Defendants in September 2022, and Plaintiff’s deadline to appeal the judgment has now lapsed. We consider the case to effectively be closed. For details of this case, please also see “Business – Legal Proceedings and Compliance” and page I-56 of Appendix I. We may also face new legal proceedings, claims and investigations in the future. The existence of such cases and any adverse outcome of these cases, including any plaintiff’s appeal of a judgment, could have a material adverse effect on our business, reputation, financial condition, results of operations, cash flows as well as the trading price of our Shares and/or ADSs. Resolution of these matters may utilize a significant portion of our cash resources and divert management’s attention from the day-to-day operations of our Company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results. In addition, it has come to our knowledge that our chairman of the Board, Mr. Zhou Hongyi, was named as one of the defendants in a putative securities class action lawsuit filed in the U.S. District Court for the Southern District of New York against, among others, Qihoo 360 Technology Co. Ltd., a formerly NYSE-listed company, or Qihoo 360 Technology, in which Mr. Zhou held the position of chief executive officer. Plaintiffs alleged that shareholders were misled by alleged

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misrepresentations and omissions in connection with Qihoo 360 Technology’s going-private transaction. As the case remains in its preliminary stage, we cannot predict its outcome at this time. If defendants in this case are unable to have the case dismissed or settled on favorable terms, or if the case results in negative publicity about Mr. Zhou, our reputation and the public’s perception of us may be negatively impacted.

Our investments in and capital supports to the joint venture company that we established for the construction of our regional headquarter and affiliated industrial park may occupy a portion of our working capital.

In October 2020, we established Shanghai 360 Changfeng Technology, Co., Ltd., or 360 Changfeng, a joint venture company in Shanghai, China through Shanghai Qiyu, to build our regional headquarters and the affiliated industrial park for our future operations. Currently, we hold 70% of the equity interests in 360 Changfeng and are the controlling shareholder, with the remaining 30% held by an independent third party. We have consolidated the financial condition and results of operations of 360 Changfeng on our financial statements beginning in the fiscal year of 2021 and it became our consolidated subsidiary. The construction project that the joint venture company operates is capital intensive. Pursuant to the joint venture agreement, the shareholders of the joint venture company will contribute initial funding for the acquisition of land use rights, while funds required for subsequent developments will be mainly supplied through external financings with any remaining shortfall funded by the shareholders ratably in proportion to their respective equity interest ownership. See also “Business – Properties.” As of June 30, 2022, a total of RMB1.0 billion were contributed by the shareholders to acquire land use rights, of which RMB0.3 billion was funded by the independent third party. Additionally, 360 Changfeng has entered into a facility agreement with a commercial bank in China to finance its operations and the construction project, pursuant to which the commercial bank agreed to extend a loan facility in an aggregate amount of up to RMB1.0 billion, which requires the subsidiary’s registered capital to be paid in the same proportion of the total facility used. Currently, our investments in and capital supports to 360 Changfeng has not had a material adverse impact on our working capital. However, if it requires further capital contributions or funding from us in the future, our working capital position could be negatively impacted. In addition, if it defaults in its repayment obligations in any debt financings, it may incur additional liabilities or be involved in legal proceedings, which may adversely affect our results of operations, cash flow positions and reputations.

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Increasing focus with respect to environmental, social and governance matters may impose additional costs on us or expose us to additional risks. Failure to adapt to or comply with the evolving expectations and standards on environmental, social and governance matters from investors and the PRC government may adversely affect our business, financial condition and results of operation.

The PRC government and public advocacy groups have been increasingly focused on environment, social and governance, or ESG, issues in recent years, making our business more sensitive to ESG issues and changes in governmental policies and laws and regulations associated with environment protection and other ESG-related matters. Investor advocacy groups, certain institutional investors, investment funds, and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. Regardless of the industry, increased focus from investors and the PRC government on ESG and similar matters may hinder access to capital, as investors may decide to reallocate capital or to not commit capital as a result of their assessment of a company's ESG practices. Any ESG concern or issue could increase our regulatory compliance costs. If we do not adapt to or comply with the evolving expectations and standards on ESG matters from investors and the PRC government or are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition, and the price of the ADSs could be adversely effected.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

In addition to the impact of COVID-19, our business could also be adversely affected by other epidemics. In recent years, there have been outbreaks of epidemics in China and globally. Our business operations could be disrupted if any of our employees are suspected of having contracted the COVID-19 as well as having affected by other epidemics such as the Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, and other epidemics, since it could require our employees to be quarantined or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the Chinese economy and the Credit-Tech industry in general.

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power losses, telecommunications failures, break-ins, wars, riots, terrorist attacks or similar events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affecting our ability to provide products and services on our platform.

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Our headquarters is located in Shanghai and many of our senior management reside in Beijing. Most of our system hardware and back-up systems are hosted in leased facilities located in Shanghai and Beijing. Consequently, we are highly susceptible to factors adversely affecting Shanghai and Beijing. If any of the abovementioned natural disasters, health epidemics or other outbreaks were to occur or aggravate in Shanghai and Beijing, our operation may experience material disruptions, such as temporary closure of our offices and suspension of services, which may materially and adversely affect our business, financial condition and results of operations.

Risks Related to Our Corporate Structure

If the PRC government deems that the contractual arrangements in relation to our VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership of internet-based businesses, such as the distribution of online information, is subject to restrictions under current PRC laws and regulations. Although the Administrative Rules on the Foreign-invested Telecommunications Enterprises (《外商投資電信企業管理規定》) recently promulgated by the State Council in May 2022 lifted the prior requirement that the primary foreign investor in a foreign invested value-added telecommunications enterprise must have a good track record and operational experience in the value-added telecommunications industry, there remain restrictions on foreign investments in value-added telecommunication businesses. For example, foreign investors are generally not allowed to own more than 50% of the equity interests in a value-added telecommunications service provider in accordance with the Negative List (2021), which became effective on January 1, 2022 and replaced the negative list in the Special Management Measures for the Access of Foreign Investment (2020 version) (《外商投資准入特別管理措施(負面清單)(2020年版)》), and other applicable laws and regulations.

We are a Cayman Islands holding company and our PRC subsidiaries are considered foreign-invested enterprises. Therefore, we operate our Credit-Tech businesses in China through our VIEs and their subsidiaries, in which we have no ownership interest. Our PRC subsidiaries have entered into a series of contractual arrangements with our VIEs and their respective shareholders, which enable us to (i) exercise effective control over our VIEs, (ii) receive substantially all of the economic benefits of our VIEs, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in our VIEs when and to the extent permitted by PRC law. As a result of these contractual arrangements, we have control over and are the primary beneficiary of our VIEs and hence consolidate their financial results into our consolidated financial statements under U.S. GAAP. For a detailed description of these contractual arrangements, see “History and Corporate Structure.” One of our VIEs, Shanghai Qiyu, has been operating our Credit-Tech business, including, among others, operations of our 360 Jietiao since its incorporation and has obtained and held the ICP license according to relevant PRC laws and regulations. See “Regulatory Overview – Regulations on Foreign

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Investment Restrictions – Regulations on value-added telecommunications services.” The subsidiary of Shanghai Qiyu, Fuzhou Microcredit, which also provides loans through 360 Jietiao, has obtained a micro-lending license from the relevant competent local authorities.

[REDACTED] in our Shares or ADSs thus are not purchasing equity interest in our VIEs in China but instead are purchasing equity interest in our Cayman Islands holding company. Our holding company in the Cayman Islands, our VIEs and their subsidiaries, and [REDACTED] in our Company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with our VIEs and, consequently, the business, financial condition, and results of operations of our VIEs and our Company as a group.

In the opinion of our PRC Legal Adviser, the Contractual Arrangements are in compliance with PRC laws and regulations currently in effect. However, our PRC Legal Adviser has also advised us that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC Legal Adviser.

It is uncertain whether any new PRC laws, regulations or rules relating to the “variable interest entity” structure will be adopted or if adopted, what they would provide. If the ownership structure, contractual arrangements and business of our Company, our PRC subsidiaries or our VIEs are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant government authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income or the income of our VIEs, revoking the business licenses or operating licenses of our WFOE or our VIEs, shutting down our servers or blocking our online platform, discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring, restricting or prohibiting our use of [REDACTED] from our offshore [REDACTED] to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business. Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If any of these occurrences result in our inability to direct the activities of our VIEs, or our failure to receive economic benefits from our VIEs, we may not be able to consolidate their results into our consolidated financial statements in accordance with U.S. GAAP, and our Shares or ADSs may decline in value or become worthless if we are unable to assert our contractual control rights over the assets of our VIEs, which contributed 93%, 97% and 92% of our total net revenue in 2019, 2020 and 2021, respectively.

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We rely on contractual arrangements with our VIEs and the shareholders of our VIEs for all of our business operations, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with our VIEs and the shareholders of our VIEs, to operate our Credit-Tech businesses, including, among others, the operation of 360 Jietiao, as well as certain other complementary businesses. For a description of these contractual arrangements, see “History and Corporate Structure.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs. For example, our VIEs or the shareholders of our VIEs may fail to fulfill their contractual obligations with us, such as failure to maintain our platform and use the domain names and trademarks in a manner as stipulated in the contractual arrangements, or taking other actions that are detrimental to our interests.

If we had direct ownership of our VIEs, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIEs, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by our VIEs and their shareholders of their obligations under the contractual arrangements to exercise control over our VIEs. The shareholders of our VIEs may not act in the best interests of our Company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our VIEs and the shareholders of our VIEs. Although we have the right, subject to a registration process with PRC government authorities, to replace Shanghai Qibutianxia as the registered shareholders of our VIEs under the contractual arrangements, if it becomes uncooperative or any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC laws and arbitration, litigation and other legal proceedings, the outcome of which will be subject to uncertainties. See “– Any failure by our VIEs or the shareholders of our VIEs to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.” Therefore, our contractual arrangements with our VIEs and the shareholders of our VIEs may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by our VIEs or the shareholders of our VIEs to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

We have entered into a series of contractual arrangements with our VIEs, and the shareholders of our VIEs. For a description of these contractual arrangements, see “History and Corporate Structure.” If our VIEs or the shareholders of our VIEs fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective under PRC laws. For example,

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if the shareholders of our VIEs were to refuse to transfer their equity interests in our VIEs to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All of these contractual arrangements are governed by and interpreted in accordance with PRC law, and disputes arising from these contractual arrangements between us and our VIEs will be resolved through arbitration in China. For the sake of clarity, the arbitration provisions here relate to the claims arising from the contractual relationship created by the VIE agreements, rather than claims under the US federal securities laws, and they do not prevent our shareholders or ADS holders from pursuing claims under the US federal securities laws in the United States. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs, and our ability to conduct our business may be negatively affected. See “– Risks Related to Doing Business in China – Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.”

The registered shareholders of our VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The registered shareholders of our VIEs are beneficially owned by some of our shareholders. However, as we raise additional capital, and our shareholders sell the shares they hold in our Company in the future, the interests of such registered shareholders of our VIEs might become different from the interests of our Company as a whole. Under the influence of its shareholders, such registered shareholders of our VIEs may breach, or cause our VIEs to breach, the existing contractual arrangements we have with them, which would have a material adverse effect on our ability to effectively control our VIEs and receive economic benefits from them. For example, the registered shareholders of our VIEs may be able to cause our agreements with our VIEs to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, the registered shareholders of our VIEs will act in the best interests of our Company or such conflicts will be resolved in our favor.

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Currently, we do not have any arrangements to address potential conflicts of interest between our VIEs' shareholders and our Company, except that we could exercise our purchase option under the option agreement with such shareholders to request that they transfer all of their equity interests in our VIEs to a PRC entity or individual designated by us, to the extent permitted by PRC laws. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our VIEs, we would have to rely on legal proceedings, which could result in the disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements in relation to our VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIEs owe additional taxes, which could negatively affect our financial condition and the value of your [REDACTED].

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The EIT Law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between our WFOE, our VIEs, and the shareholders of our VIEs were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, regulations and rules, and adjust our VIEs' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our VIEs for PRC tax purposes, which could in turn increase their tax liabilities. In addition, if our WFOE requests the shareholders of our VIEs to transfer their equity interests in our VIEs at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject our WFOE to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our VIEs for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our VIEs' tax liabilities increase or if they are required to pay late payment fees and other penalties.

We may lose the ability to use and enjoy assets held by our VIEs that are material to the operation of our business if the entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Our VIEs hold substantially all of our assets, some of which are material to our operation, including, among others, intellectual properties, hardware and software. Under contractual arrangements, our VIEs may not, and the shareholders of our VIEs may not cause them to, in any manner, sell, transfer, mortgage or dispose of their assets or their legal or beneficial interests in the business without our prior consent. However, in the event our VIEs' shareholders breach these contractual arrangements and voluntarily liquidate our VIEs, or our VIEs declare bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to

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continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If our VIEs undergo a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Divestitures of businesses and assets may have a material and adverse effect on our business and financial condition.

We may undertake in the future, partial or complete divestitures or other disposal transactions in connection with certain of our businesses and assets, particularly ones that are not closely related to our core focus areas or might require excessive resources or financial capital, to help our company meet its objectives. These decisions are largely based on our management's assessment of the business models and likelihood of success of these businesses. However, our judgment could be inaccurate, and we may not achieve the desired strategic and financial benefits from these transactions. Our financial results could be adversely affected by the impact from the loss of earnings and corporate overhead contribution/allocation associated with divested businesses.

Dispositions may also involve continued financial involvement in the divested business, such as through guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could affect our future financial results. We may also be exposed to negative publicity as a result of the potential misconception that the divested business is still part of our consolidated group. On the other hand, we cannot assure you that the divesting business would not pursue opportunities to provide services to our competitors or other opportunities that would conflict with our interests. If any conflicts of interest that may arise between the divesting business and us cannot be resolved in our favor, our business, financial condition, results of operations could be materially and adversely affected.

Furthermore, reducing or eliminating our ownership interests in these businesses might negatively affect our operations, prospects, or long-term value. We may lose access to resources or know-how that would have been useful in the development of our own business. Our ability to diversify or expand our existing businesses or to move into new areas of business may be reduced, and we may have to modify our business strategy to focus more exclusively on areas of business where we already possess the necessary expertise. We may sell our interests too early, and thus forego gains that we otherwise would have received had we not sold. Selecting businesses to dispose of or spin off, finding buyers for them (or the equity interests in them to be sold) and negotiating prices for what may be relatively illiquid ownership interests with no easily ascertainable fair market value will also require significant attention from our management and may divert resources from our existing business, which in turn could have an adverse effect on our business operations.

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We have applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements in Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to list a subsidiary entity on the Hong Kong Stock Exchange within three years of the [REDACTED]. While we currently do not have any plan with respect to any spin-off listing on the Hong Kong Stock Exchange, we may consider a spin-off listing on the Hong Kong Stock Exchange for one or more of our businesses within the three year period subsequent to the [REDACTED]. For additional information, see “Waivers and Exemptions – Three-year Restriction on Spin-offs.”

Risks Related to Doing Business in China

The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our [REDACTED] with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included in our annual report filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB. As a result, we and [REDACTED] in our Shares and ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause [REDACTED] and potential [REDACTED] in our Shares and ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

The ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or completely investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your [REDACTED].

The Holding Foreign Companies Accountable Act, or the HFCAA, was signed into law on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA, pursuant to which the SEC will identify an issuer as a “Commission-Identified Issuer” if the issuer has filed an

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annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, and our auditor is subject to this determination. In May 2022, in connection with its implementation of the HFCAA, the SEC conclusively listed 360 DigiTech, Inc. as a "Commission-Identified Issuer" following the filing of our Company's annual report on Form 20-F for the fiscal year ended December 31, 2021. In accordance with the HFCAA, our securities will be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States in 2024 if the PCAOB is unable to inspect or completely investigate PCAOB-registered public accounting firms headquartered in China, or in 2023 if proposed changes to the law, or the Accelerating Holding Foreign Companies Accountable Act, are enacted. As a result, the Nasdaq may determine to delist our securities. Our Directors are of the view that the listing of 360 DigiTech, Inc. as a Commission-Identified Issuer by the SEC for the first time in May 2022 does not have an immediate impact on our status as a company listed on the Nasdaq, the [REDACTED] and our business operations.

On August 26, 2022, the PCAOB signed a Statement of Protocol with the CSRC and the MOF, taking the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. However, whether the PCAOB will be able to conduct inspections of PCAOB-registered public accounting firms headquartered in China before the issuance of our financial statements on Form 20-F for the year ending December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our and our auditor's control. Although we expect to [REDACTED] our Shares on the Hong Kong Stock Exchange and the ADSs and Shares are fully fungible, we cannot assure you that an active trading market for our Shares on the Hong Kong Stock Exchange will be sustained or that the ADSs can be converted and traded with sufficient market recognition and liquidity, if our Shares and ADSs are prohibited from trading in the United States. Such a prohibition would substantially impair your ability to sell or purchase the ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our Shares and ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. If this provision is enacted into law and the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA is reduced from three years to two, then the ADSs could be prohibited from trading in the United States in 2023.

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The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of the ADSs.

We conduct our business primarily in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and may intervene or influence our operations as the government deems appropriate to advance regulatory and societal goals and policy positions. The PRC government has recently published new policies that significantly affected certain industries and we cannot rule out the possibility that it will in the future release regulations or policies that directly or indirectly affect our industry or require us to seek additional permission to continue our operations, which could result in a material adverse change in our operation and/or the value of our Shares and ADSs. Therefore, [REDACTED] of our Company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.

The PRC legal system is based on written statutes and prior court decisions have limited value as precedents. The PRC legal system is evolving rapidly and PRC laws, regulations, and rules may change quickly with little advance notice. The interpretations of many PRC laws, regulations, and rules may contain inconsistencies, the enforcement of which involves uncertainties. For example, the PRC Foreign Investment Law (《中華人民共和國外商投資法》), which took effect on January 1, 2020, replaces the trio of existing laws regulating foreign investment in China, together with their implementation rules and ancillary regulations. This PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, its implementation rules and ancillary regulations, which may materially impact the viability of our current corporate structure, corporate governance and business operations. We cannot assure you that we will remain fully compliant with all new regulatory requirements or any future implementation rules on a timely basis, or at all. Any failure of us to fully comply with new regulatory requirements may significantly limit or completely hinder our ability to [REDACTED] or continue to [REDACTED] the Shares and ADSs, cause significant disruption to our business operations, and severely damage our reputation, which would materially and adversely affect our financial condition and results of operations and cause the Shares and ADSs to significantly decline in value or become worthless.

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From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.

Substantially all of our operations are located in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including, but not limited to the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. Further, the PRC government has significant authority to exert influence on the ability of a China-based company, such as us, to conduct its business. Therefore, [REDACTED] of our Company and our business face potential uncertainty from the PRC government. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations.

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A downturn in the Chinese or global economy could reduce the demand for consumer loans, which could materially and adversely affect our business and financial condition.

COVID-19 had a severe and negative impact on both the Chinese and the global economy. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy has already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. The conflict in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may reduce the demand for consumer loans and have a negative impact on our business, results of operations and financial condition. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

Changes in international trade policies and rising political tensions, particularly between the U.S. and China, may adversely impact our business and operating results.

There have been changes in international trade policies and rising political tensions, particularly between the U.S. and China, but also as a result of the conflict in Ukraine and sanctions on Russia. The U.S. government has made statements and taken certain actions that may lead to potential changes to U.S. and international trade policies towards China. For example, export controls, economic and trade sanctions have been threatened and/or imposed by the U.S. government on a number of Chinese technology companies. The United States has also threatened to impose further export controls, sanctions, trade embargoes, and other heightened regulatory requirements on China and Chinese companies for alleged activities both inside and outside of China. Against this backdrop, China has implemented, and may further implement, measures in response to the changing trade policies, treaties, tariffs and sanctions and restrictions against Chinese companies initiated by the U.S. government. For example, the Ministry of Commerce of China published Rules on Counteracting Unjustified Extra-Territorial Application of Foreign Legislation and Other Measures (《阻斷外國法律與措施不當域外適用辦法》) in January 2021 to counter restrictions imposed by foreign countries on Chinese citizens and companies. Rising trade and political tensions could reduce levels of trade, investments, technological exchanges and other economic activities between China and other countries, which would have an adverse effect on global economic conditions, the stability of global financial markets, and international trade policies. It could also adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition and results of operations.

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While cross-border business currently may not be an area of our focus, if we plan to expand our business internationally in the future, any unfavorable government policies on international trade or any restriction on Chinese companies may affect consumer demand for our products and service, impact our competitive position, or prevent us from being able to conduct business in certain countries. In addition, our results of operations could be adversely affected if any such tensions or unfavorable government trade policies harm the Chinese economy or the global economy in general.

The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore [REDACTED], and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

The M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009 requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore [REDACTED] may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore [REDACTED], or a rescission of such approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As a follow-up, on December 24, 2021, the CSRC issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》), or the Draft Provisions, and a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市備案管理辦法》), or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures, an overseas offering of equity shares, depository receipts, convertible corporate bond, or other equity-like securities, and the listing by a domestic company, whether directly or indirectly, shall be filed

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with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, or the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, the issuer or its affiliated material domestic company, as the case may be, shall file with the CSRC and report the relevant information for its initial public offering, follow-on offshore offering and other equivalent offshore offering activities. Particularly, the issuer or its affiliated material domestic company shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offshore offering within three business days after completion of the follow-on offering. Failure to comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder, actual controllers, directors, supervisors, and senior management and other responsible persons. The Draft Administration Measures also sets forth certain regulatory circumstances where offshore offerings and listings by domestic enterprises shall be prohibited.

As of the Latest Practicable Date, the Draft Provisions and the Draft Administration Measures have not been formally adopted. There are uncertainties as to whether the Draft Provisions and the Draft Administration Measures would be further amended, revised or updated. Substantial uncertainties exist with respect to the enactment timetable and final content of the Draft Provisions and the Draft Administration Measures. As the CSRC may formulate and publish guidelines for filings in the future, the Draft Administration Measures does not provide for detailed requirements of the substance and form of the filing documents. In a Q&A released on its official website, the respondent CSRC official indicated that the proposed new filing requirement will start with new companies and the existing companies seeking to carry out activities like follow-on offshore financing. As for the filings for the existing companies, the regulator will grant adequate transition period and apply separate arrangements. The Q&A also addressed the contractual arrangements and pointed out that if relevant domestic laws and regulations have been observed, companies with compliant VIE structure may seek overseas listing after completion of the CSRC filings. Nevertheless, it does not specify what qualify as compliant VIE structures and what relevant domestic laws and regulations are required to be complied with. Given the substantial uncertainties surrounding the latest CSRC filing requirements at this stage, we cannot assure you that we will be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all.

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Relatedly, on December 27, 2021, the NDRC and the MOF, jointly issued the Negative List (2021), which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the Negative List (2021) seeks an overseas offering and listing, it shall obtain the approval from the competent government authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. As the Negative List (2021) is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval from and filing with the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Measures for Cybersecurity Review and the Draft Regulations on Network Data Security as well as the filing requirements under the Draft Provisions and the Draft Administration Measures are required for our offshore [REDACTED], it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore [REDACTED], or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the [REDACTED] from our offshore [REDACTED] into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our Shares and ADSs. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore [REDACTED] before settlement and delivery of the Shares [REDACTED]. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore [REDACTED], we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our Shares and ADSs.

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It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigations initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law (《中華人民共和國證券法》), which became effective in March 2020, no overseas securities regulator is allowed to directly conduct an investigation or evidence collection activities within the PRC territory. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability of an overseas securities regulator to directly conduct an investigation or evidence collection activities within China may further increase the difficulties you face in protecting your interests. See also “– Risks Related to Our Shares, ADSs and the [REDACTED] – You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts or Hong Kong courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with [REDACTED] in us as a Cayman Islands company.

Substantial uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the NPC approved the Foreign Investment Law, which came into effect on January 1, 2020 and replaces the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), and has become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law sets out the basic regulatory framework for foreign investments and proposes to implement a system of pre-entry national treatment with a negative list for foreign investments, pursuant to which (i) foreign entities and individuals are prohibited from investing in certain areas that are not open to foreign investments, (ii) foreign investments in the restricted industries must satisfy certain requirements under the law, and (iii) foreign investments in business sectors outside of the negative list will be treated equally with domestic investments. The Foreign Investment Law also sets forth necessary mechanisms to facilitate, protect and manage foreign investments and proposes to establish a foreign investment information reporting system, through which foreign investors are required to submit information relating to their investments to the MOFCOM, or its local branches.

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However, since the Foreign Investment Law is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activity under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We only have contractual control over our website and mobile app platform. We do not directly own the website and mobile app platform due to the restriction on foreign investment in businesses providing value-added telecommunications services in China, including internet information provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

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The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the CAC (with the involvement of the State Council Information Office, the MIIT, and the MPS). The primary role of this new agency is to facilitate policy-making and legislative developments in this field, to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry.

According to relevant PRC laws and regulations, an enterprise must obtain a value-added telecommunication business license to operate a value-added telecommunication business. Our online platform, 360 Jietiao, operated by Shanghai Qiyu, one of our VIEs, obtained its ICP license in April 2021. Nevertheless, it is uncertain if Fuzhou Microcredit will be required to obtain a separate operating license with respect to our mobile app or website in addition to the VATS license or Shanghai Qiyu may be required to obtain additional value-added telecommunications business licenses. See also “– If we fail to complete, obtain or maintain the value-added telecommunications license, other requisite license, or approvals or filings in China, our business, financial condition and results of operations may be materially and adversely affected.”

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

We face uncertainties with respect to the interpretation and implementation of the Anti-monopoly Law.

According to the Anti-monopoly Law of the PRC (《中華人民共和國反壟斷法》), business operators that hold dominant market position shall not abuse their dominant market position to restrict trading counterparts to transact only with such business operators or only with designated business operators without a justifiable reason. Where a business operator has violated the Anti-monopoly Law of the PRC in abusing its dominant market position, the anti-monopoly enforcement agency may order the business operator to stop the illegal act and confiscate the illegal income. A fine of 1% to 10% of the sales amount of the preceding year shall be imposed.

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We do not believe our business is in violation of the Anti-monopoly Law of the PRC, and as of the date of the Latest Practicable Date, we had not been subject to any administrative penalties or regulatory actions in connection with anti-monopoly. Recently, the SAMR imposed administrative penalties in a number of anti-monopoly cases in the internet industry, and the regulatory environment of anti-monopoly is tightening. Due to the uncertainties associated with the evolving legislative activities and varied local implementation practices of competition laws and regulations in China, we cannot assure you that we will not be required to adjust our business practice in order to comply with these laws, regulations, rules, guidelines and implementations, or be able to maintain full compliance. Any incompliance or associated inquiries, investigations and other governmental actions may divert significant management time and attention and our financial resources, bring negative publicity, subject us to liabilities or administrative penalties, and materially and adversely affect our financial condition, operations and business prospects.

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.

We are a holding company, and we rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require our PRC subsidiaries to adjust its taxable income under the contractual arrangements it currently has in place with our VIEs in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us. See “– Risks Related to Our Corporate Structure – Contractual arrangements in relation to our VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIEs owe additional taxes, which could negatively affect our financial condition and the value of your [REDACTED].”

Under PRC laws and regulations, our PRC subsidiaries, as wholly foreign-owned enterprises in China, may pay dividends only out of its accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to employee benefits and bonus funds. These reserve funds and employee benefits and bonus funds are not distributable as cash dividends.

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The SAFE issued the Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting the Policy for Foreign Exchange Control of Capital Accounts (《國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知》), or Circular 2, on May 12, 2014, which provides that offshore Renminbi loans provided by a domestic enterprise to offshore enterprises that it holds equity interests in shall not exceed 30% of such equity interests. Circular 2 may constrain our PRC subsidiaries' ability to provide offshore loans to us. In addition, the PBOC and the SAFE, have implemented a series of capital control measures, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries' dividends and other distributions may be subject to tighter scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also "– We may not be able to obtain certain benefits under the relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary."

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the [REDACTED] of our securities [REDACTED] to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant government authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, or FICMIS, and registration with other government authorities in China. In addition, (a) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches, and (b) our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long-term loan to be provided by us to a variable interest entity of our Company must be recorded and registered by the NDRC and the SAFE or its local branches. We may not complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the [REDACTED] of our securities [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

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The Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, and the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange (《關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16, prohibit a foreign-invested enterprise from, among other things, using Renminbi funds converted from its foreign exchange capital for expenditure beyond its business scope, investment and financing (except for security investment or guarantee products issued by a bank), providing loans to non-affiliated enterprises, or constructing or purchasing real estate not for self-use. This restriction was relaxed, however, in October 2019 since which time non-investment foreign-funded enterprises can make domestic equity investments by converting their foreign exchange capital; provided that such investments should be in compliance with the Negative List (2021) and other relevant PRC laws and regulations.

SAFE Circular 19, SAFE Circular 16 and other relevant rules and regulations may significantly limit our ability to transfer to and use in China the net [REDACTED] from our securities [REDACTED], which may adversely affect our business, financial condition and results of operations.

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. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. 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.

Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares and ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive into Renminbi to pay our operating expenses, appreciation of Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our Shares and ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our

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currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your [REDACTED].

Governmental control of currency conversion may limit our ability to utilize our net revenue effectively and affect the value of your [REDACTED].

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenue in Renminbi. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the shareholders of our Company who are PRC residents. But approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In recent years, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process were put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs.

Failure to make adequate contributions to various employee benefit plans and withhold individual income tax on employees' salaries as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by local governments in China given the different levels of economic development in different locations. Companies operating in China are also required to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment. If we do not make adequate

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employee benefit payments, we may be required to make up the contributions for these plans as well as to pay late fees and fines; with respect to the underwithheld individual income tax, we may be required to make up sufficient withholding and pay late fees and fines. If we are subject to late fees or fines in relation to the underpaid employee benefits and underwithheld individual income tax, our financial condition and results of operations may be adversely affected.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The M&A Rules and some other regulations and rules concerning mergers and acquisitions, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.

The SAFE promulgated the SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC residents or entities, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

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SAFE Circular 37 was issued to replace the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments through Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》).

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our Company, nor can we compel our shareholders to comply with the requirements of SAFE Circular 37. As a result, we cannot assure you that all of our shareholders who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by SAFE Circular 37. Failure by such shareholders to comply with SAFE Circular 37, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in stock incentive plans in overseas non-publicly listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose vehicles. In the meantime, our Directors, executive officers and other employees who are PRC citizens, subject to limited exceptions, and who have been granted stock options by us, may follow the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), promulgated by SAFE in 2012, or the 2012 SAFE Notices. Pursuant to the 2012 SAFE Notices, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures if they participate in any stock incentive plan of an overseas publicly traded company, unless certain exceptions are available. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our Directors, executive officers and other employees who are PRC citizens or non-PRC citizens living in the PRC for a continuous period of not less than one year and have been granted stock options are subject to these regulations. Failure to complete SAFE

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registrations may subject them to fines and legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries’ ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our Directors, executive officers and employees under PRC law. See “Regulatory Overview – Regulations on Foreign Exchange – Regulations on stock incentive plans.”

The STA, has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, our employees working in China who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee stock options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities. See “Regulatory Overview – Regulations on Foreign Exchange – Regulations on stock incentive plans.”

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.

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the STA issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the STA’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. See "Financial Information – Taxation – China." However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then we or such subsidiaries could be subject to PRC tax at a rate of 25% on its worldwide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of the ADSs or ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our Company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in the ADSs or ordinary shares.

We may not be able to obtain certain benefits under the relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the EIT Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC "resident enterprise" to a foreign enterprise investor, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (《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》), or the Double Tax Avoidance Arrangement, and Circular 81 issued by the STA, such withholding tax rate may be lowered to 5% if the PRC enterprise is at least 25% held by a Hong Kong enterprise for at least 12 consecutive months prior to distribution of the dividends and is determined by the relevant PRC tax authority to have satisfied other conditions and requirements under the Double Tax Avoidance Arrangement and other applicable PRC laws. Furthermore, under the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》), which became effective in August 2015, the non-resident enterprises shall determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant reports and materials with the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See "Financial Information – Taxation – China." We cannot assure you that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant PRC

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tax authority or we will be able to complete the necessary filings with the relevant PRC tax authority and enjoy the preferential withholding tax rate of 5% under the Double Tax Avoidance Arrangement with respect to dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiary.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

We face uncertainties regarding the reporting on and consequences of previous private equity financing transactions involving the transfer and exchange of shares in our Company by non-resident investors.

In February 2015, the STA issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or STA Bulletin 7, as amended in 2017. Pursuant to this bulletin, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to STA Bulletin 7, "PRC taxable assets" include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income tax. When determining whether there is a "reasonable commercial purpose" of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have a real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. STA Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

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There is uncertainty as to the application of STA Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our Company is transferor in such transactions, and may be subject to withholding obligations if our Company is transferee in such transactions under STA Bulletin 7. For transfer of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under STA Bulletin 7. As a result, we may be required to expend valuable resources to comply with STA Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Risks Related to Our Shares, ADSs and the [REDACTED]

As a company applying for [REDACTED] under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for [REDACTED] under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the [REDACTED], we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see “Waivers and Exemptions.”

Our Articles of Association are specific to us and include certain provisions that may be different from the requirements under the Hong Kong Listing Rules and common practices in Hong Kong. We will put forth resolutions to our shareholders at the First GM following the [REDACTED] to amend certain provisions of our Articles in order to comply with the relevant Hong Kong Listing Rules. For further details, please see “Waivers and Exemptions – Requirements Relating to the Articles of Association of our Company.”

Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our Shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary [REDACTED] in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO, which could result in us having to amend our corporate structure and memorandum and articles of association and our incurring of incremental compliance costs.

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The market price for the ADSs or Shares may be volatile.

The trading prices of the ADSs or Shares are likely to be volatile and could fluctuate widely due to factors beyond our control. The trading prices of the ADSs ranged from US\$11.79 to US\$44.05 in 2021. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed internet or other companies based in China that have listed their securities in the United States and/or in Hong Kong in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial declines in their trading prices. The trading performances of other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in the United States and/or Hong Kong in general, which consequently may impact the trading performance of our Shares and/or ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009 and the second half of 2011, which may have a material adverse effect on the market price of our Shares and/or ADSs.

In addition to the above factors, the price and trading volume of our Shares and/or ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us, our users, or our industry;
- deterioration of the collaboration relationship with 360 Group;
- conditions in the Credit-Tech industry;
- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other Credit-Tech platforms;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;

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- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments;
- additions to or departures of our senior management;
- detrimental negative publicity about us, our management or our industry;
- fluctuations of exchange rates among Renminbi, the Hong Kong dollar and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our Shares and/or ADSs and trading volume could decline.

The trading market for our Shares and/or ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who cover us downgrade our Shares and/or ADSs or publish inaccurate or unfavorable research about our business, the market price for our Shares and/or ADSs would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our Shares and/or ADSs to decline.

Techniques employed by short sellers may drive down the market price of our Shares or ADSs.

Short selling is the practice of selling securities that a seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding relevant issuers and their business prospects in order to create negative market sentiment or momentum and generate profits for themselves after selling securities short.

Public companies listed in the United States that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance

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policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits or SEC enforcement actions.

It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law, or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and shareholders' equity, and any [REDACTED] in our Shares or ADSs could be greatly reduced or rendered worthless.

The different characteristics of the capital markets in Hong Kong and the United States may negatively affect the trading prices of our Shares and/or ADSs.

Upon the [REDACTED], we will be subject to Hong Kong and United States regulatory requirements concurrently. The Hong Kong Stock Exchange and Nasdaq have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Shares and the ADSs may not be the same, even allowing for currency differences. Fluctuations in the price of the ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of our Shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our Shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of the ADSs may not be indicative of the trading performance of our Shares after the [REDACTED].

Exchange between our Shares and the ADSs may adversely affect the liquidity and/or trading price of each other.

The ADSs are currently traded on Nasdaq. Subject to compliance with U.S. securities law and the terms of the Deposit Agreement, holders of our Shares may deposit Shares with the depository in exchange for the issuance of the ADSs. Any holder of ADSs may also surrender ADSs and withdraw the underlying Shares represented by the ADSs pursuant to the terms of the Deposit Agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Shares are deposited with the depository in exchange for ADSs or vice versa, the liquidity and trading price of our Shares on the Hong Kong Stock Exchange and the ADSs on Nasdaq may be adversely affected.

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The time required for the exchange between our Shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Shares into ADSs involves costs.

There is no direct trading or settlement between Nasdaq and the Hong Kong Stock Exchange on which the ADSs and the Shares are respectively traded. In addition, the time differences between Hong Kong and New York and unforeseen market circumstances or other factors may delay the deposit of Shares in exchange for ADSs or the withdrawal of Shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Shares into ADSs (and vice versa) will be completed in accordance with the timelines investors may anticipate.

Furthermore, the depository for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

Although we adopted regular quarterly dividend policy in 2021, we cannot assure you that our existing dividend policy will not change in the future or the amount of dividends that you may receive, neither can we guarantee that we will have sufficient profits, reserves set aside from profits or otherwise funds to justify and enable dividend declaration and payment in compliance with laws for any fiscal quarter and, therefore, you may need to rely on price appreciation of our Shares and/or ADSs as the sole source for return on your [REDACTED].

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. 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.

Despite a regular dividend policy being in place, before any dividend is declared and paid for any fiscal quarter, we need to have enough profits to justify such declaration and payment, or we need to have sufficient reserves set aside from profits previously generated that our Board determines are no longer needed. In addition, we must be able to pay our debts as they fall due in the ordinary course of business immediately following the dividend payment. We cannot assure you that we will be able to meet all of such conditions to enable dividend declaration and payment in compliance with laws. Even if our Board decides to declare and pay dividends, the timing and amount of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the

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amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board. Therefore, the amount of dividends that you may receive is uncertain and subject to change.

Furthermore, our regular dividend policy is subject to change at any time at the discretion of our Board, and there can be no assurance that we will not adjust or terminate our dividend policy in the future. Accordingly, you should not rely on your [REDACTED] in our Shares and/or ADSs as a source for any future dividend income and the future return on your [REDACTED] in our Shares and/or ADSs will likely depend entirely upon any future price appreciation of our Shares and/or ADSs. There is no guarantee that our Shares and/or ADSs will appreciate in value or even maintain the price at which you purchased the Shares and/or ADSs. You may not realize a return on your [REDACTED] in our Shares and/or ADSs and you may even lose your entire [REDACTED] in our Shares and/or ADSs.

Holders of ADSs are limited by the terms of the deposit agreement in terms of voting rights, and may not be able to exercise their right to direct the voting of the underlying ordinary shares which are represented by their ADSs.

Holders of ADSs will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings, and will only be able to exercise the voting rights which attach to the underlying Shares which are represented by the ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from the holders of ADSs, if we asked the depository to solicit such instructions, the depository will endeavor to vote the underlying Shares represented by the ADSs in accordance with such instructions. If we do not instruct the depository to solicit, the holders of ADSs can still send voting instructions to the depository and the depository may, but it is not required, to endeavor to carry out those instructions. The holders of ADSs will not be able to directly exercise any right to vote with respect to the underlying ordinary shares unless they withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. If we ask the depository to solicit ADS holders' voting instructions in connection with a shareholders' meeting, we have agreed to give the depository notice of that meeting and details of the matters to be voted upon at least thirty (30) days prior to the meeting. Under our Articles of Association, the minimum notice period required to be given by our Company to our registered shareholders for convening a general meeting is ten (10) calendar days. When a general meeting is convened, there may not be a sufficient advance notice to enable the holders of ADSs to withdraw the underlying Shares which are represented by the ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow them to attend the general meeting or to vote directly with respect to any specific matter or resolution which is to be considered and voted upon at the general meeting. In addition, under our Articles of Association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our Directors may close our register of members or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent the holders of ADSs from withdrawing the underlying Shares which are represented by their ADSs and becoming the registered holder of such shares prior

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to the record date, so that the holders of ADSs would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depositary will, if we request, and subject to the terms of the deposit agreement, endeavor to notify the holders of ADSs of the upcoming vote and to deliver our voting materials to the holders of ADSs. We cannot assure that the holders of ADSs will receive the voting materials in time to ensure that they can instruct the depositary to vote the underlying Shares which are represented by their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out voting instructions. This means that the holders of ADSs may not be able to exercise the right to direct the voting of the underlying Shares which are represented by the ADSs, and the holders of ADSs may have no legal remedy if the underlying Shares are not voted as requested.

The depositary for the ADSs may give us a discretionary proxy to vote our Shares represented by the ADSs if the holders of ADSs do not instruct the depositary how to vote such shares, which could adversely affect their interests.

Under the deposit agreement for the ADSs, the depositary will give us (or our nominee) a discretionary proxy to vote the underlying Shares represented by the ADSs at shareholders' meetings if the holders of ADSs do not give voting instructions to the depositary as to how to vote the underlying Shares represented by their ADSs at a meeting and as to a matter, if:

- we gave the depositary timely notice of the meeting and related voting materials;
- we confirmed to the depositary that we wish a discretionary proxy to be given;
- we confirmed to the depositary that we reasonably do not know of any substantial opposition as to a matter to be voted on at the meeting; and
- we have confirmed to the depositary that the matter voted will not have material adverse impact on shareholders.

The effect of this discretionary proxy is that, if the holders of ADSs fail to give voting instructions to the depositary as to how to vote the underlying Shares represented by their ADSs at any particular shareholders' meeting, they cannot prevent such underlying ordinary shares represented by their ADSs from being voted at that meeting, provided the other conditions described above are satisfied, and it may make it more difficult for shareholders to influence our management. Holders of our ordinary shares are not subject to this discretionary proxy.

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The deposit agreement may be amended or terminated without the consent from the holders of ADSs.

We and the depository may agree to amend the deposit agreement without the consent from the holders of ADSs. If the holders of ADSs continue to hold their ADSs after an amendment to the deposit agreement, they agree to be bound by the deposit agreement as amended. See "Information about the [REDACTED]" for more information.

The right of ADS holders to participate in any future rights offerings may be limited, which may cause dilution to their holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make such rights available to ADS holders in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depository will not make rights available to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, ADS holders may be unable to participate in our rights offerings in the future and may experience dilution in their holdings.

Holders of ADSs may not receive dividends or other distributions on our ordinary shares and may not receive any value for them if it is illegal or impractical to make them available to them.

The depository has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. ADS holders will receive these distributions in proportion to the number of ordinary shares the ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depository may also determine that it is not feasible to distribute certain property. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that ADS holders may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to them. These restrictions may cause a material decline in the value of the ADSs.

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Holders of the ADSs may be subject to limitations on transfer of their ADSs.

The ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are an exempted company incorporated under the laws of the Cayman Islands with limited liability. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our Directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within the United States or Hong Kong upon these individuals, or to bring an action against us or against these individuals in the United States or Hong Kong in the event that you believe your rights have been infringed under the U.S. federal securities laws, Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

ADS holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement or relating to our ordinary shares or the ADSs, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has nonexclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider

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whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that holders of ADSs consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If any holders or beneficial owners of ADSs bring a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, such holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us or the depository. If a lawsuit is brought against us or the depository under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts or Hong Kong courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands with limited liability. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our Directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States or Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws than the United States or Hong Kong. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States or Hong Kong courts.

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Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (apart from our memorandum and articles of association, our register of mortgages and charges and special resolutions of our shareholders) or to obtain copies of lists of shareholders of these companies. Our Directors have discretion under our Articles of Association, to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder resolution or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board or controlling shareholders than they would as public shareholders of a company incorporated in the United States or Hong Kong.

Provisions of our rights agreement could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our shareholders.

In June 2022, we implemented a defense mechanism against potential hostile takeovers through a shareholder rights plan pursuant to a rights agreement. The shareholder rights plan will be accounted as dividend in our financial statements. Although the rights plan will not prevent a takeover, it is intended to encourage anyone seeking to acquire our company to negotiate with our Board prior to attempting a takeover by potentially significantly diluting an acquirer's ownership interest in our outstanding shares. As the shareholder rights plan generally allows shareholders, except for the acquirer who triggers the exercise of Rights, to purchase additional shares at significantly discounted market price, the potential dilution effect is dependent on the number of shares purchased by the acquirer and other factors related to the acquisition, and may not be estimated at this time. In addition, the existence of the rights plan may also discourage transactions that otherwise could involve payment of a premium over prevailing market prices for the Shares or ADSs.

Our memorandum and articles of association contains anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our Shares and/or ADSs.

Our Articles of Association contains certain provisions that could limit the ability of others to acquire control of our Company, including a provision that grants authority to our Board to issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders and ADS holders of the opportunity to sell their shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our Company in a tender offer or similar transaction.

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We have granted, and may continue to grant, share incentive awards, which may cause shareholding dilution to our existing shareholders and result in increased share-based compensation expenses.

In May 2018 and November 2019, we adopted our 2018 Plan and 2019 Plan, respectively, for purposes of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. The 2018 Plan was later amended in November 2019, and the 2019 Plan was later amended in August 2020. We account for compensation costs for all share options using a fair-value based method and recognize expenses in our consolidated statements of comprehensive income in accordance with U.S. GAAP. Under the 2018 Plan and 2019 Plan, we are authorized to grant options to purchase ordinary shares of our Company, restricted shares and restricted share units. The maximum aggregate number of ordinary shares that may be issued under the 2018 Plan is 25,336,096. The maximum aggregate number of ordinary shares that may be issued under the 2019 Plan is 17,547,567, and may increase annually by an amount up to 1.0% of the total number of ordinary shares then issued and outstanding commencing with the first fiscal year beginning January 1, 2021 for four consecutive fiscal years or such lesser amount as determined by our Board. As of February 28, 2022, Shares underlying the options that have been granted and are outstanding under the 2018 Plan totaled 2,833,958 and Shares underlying the options and restricted share units that have been granted and are outstanding under the 2019 Plan amounted to 17,048,330. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, we incurred share-based compensation expenses of RMB250 million, RMB301 million, RMB254 million, RMB127 million and RMB99 million (US\$15 million), respectively. We believe the granting of share incentive awards is of significant importance to our ability to attract and retain employees, and we will continue to grant share incentive awards to employees in the future. Issuance of Shares with respect to such share-based payment may dilute the shareholding percentage of our existing shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

The sale or availability for sale of substantial amounts of our Shares and/or ADSs could adversely affect their market price.

Sales of substantial amounts of our Shares and/or ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our Shares and/or ADSs and could materially impair our ability to raise capital through equity offerings in the future. The ADSs or shares effectively registered with the SEC will be freely tradable without restriction or further registration under the Securities Act, and shares held by our existing shareholders or investors may also be sold in the public market in the future subject to the restrictions in Rule 144 and Rule 701 under the Securities Act and the applicable lockup agreements. In particular, a majority of our outstanding shares are held by venture capital or private equity fund investors that are not our affiliates. These shareholders may have varying investment horizons, cash needs and repayment obligations under certain financing arrangements, including one entered into by certain beneficial owners of our shares, who were originally organized and capitalized for the purpose of the privatization transaction of Qihoo 360 Technology Co. Ltd., and may sell their shares in reliance on Rule 144 without volume limitation.

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Certain holders of our ordinary shares may cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of the ADSs to decline, which in turn may drive down the price of our Shares.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of Nasdaq. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

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As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with such corporate governance listing standards.

As a Cayman Islands exempted company listed on Nasdaq, we are subject to the Nasdaq listing standards. However, the Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from Nasdaq corporate governance listing standards. For example, neither the Companies Act (As Revised) of the Cayman Islands nor our Articles of Association requires a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. Currently, we rely on home country practice with respect to certain aspects of our corporate governance, including (i) the independence requirements for compensation committee and nomination committee, (ii) the requirement that a majority of the board must be independent, (iii) the requirement to hold annual general meeting, and (iv) the requirement to obtain shareholder approval prior to a plan or other equity compensation arrangement is established or materially amended. But given the other home country practice we follow, our shareholders may be afforded less protection than they otherwise would under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers.

We incur increased costs as a result of being a public company, particularly after we ceased to qualify as an "emerging growth company."

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq, impose various requirements on the corporate governance practices of public companies. For example, as a result of becoming a public company, we increased the number of independent directors and adopted policies regarding internal controls and disclosure controls and procedures. We have also incurred additional costs in obtaining director and officer liability insurance. In addition, we incurred additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our Board or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

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In addition, we have ceased to be an “emerging growth company” as of December 31, 2019, and therefore are no longer able to take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We have incurred significant expenses and devoted substantial management efforts, and expect to continue to do so to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC.

We were named as a defendant in a putative shareholder class action lawsuit in the United States, which was dismissed in July 2022. The court entered an order of judgment in favor of Defendants in September 2022, and Plaintiff’s deadline to appeal the judgment has now lapsed. We consider the case to effectively be closed. We may be involved in more class action lawsuits in the future. See “– We and certain of our current and former directors or officers were, and in the future may be, named as defendants in putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.” See also “Business – Legal Proceedings and Compliance.” Such lawsuits could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the lawsuits. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

There can be no assurance that we will not be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in the ADSs or Shares to significant adverse United States income tax consequences.

We will be classified as a PFIC for United States federal income tax purposes for any taxable year if either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our VIEs (including their respective subsidiaries, if any) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our combined and consolidated financial statements.

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Assuming that we are the owner of our VIEs (including their respective subsidiaries, if any) for United States federal income tax purposes, and based upon our current and expected income and assets, including goodwill and other unbooked intangibles not reflected on our balance sheet, we do not believe we were a PFIC for the taxable year ended December 31, 2021 and we do not presently expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a fact-intensive inquiry made on an annual basis that depends, in part, upon the composition of our income and assets. Fluctuations in the market price of our Shares or ADSs may cause us to be or become a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of our Shares or ADSs from time to time (which may be volatile). The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our VIEs for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. In addition, it is possible that the IRS may challenge our classification of certain income and assets as non-passive, which may result in our company being a PFIC for the taxable year ended December 31, 2021 or becoming a PFIC in one or more future taxable years.

If we are a PFIC in any taxable year, a U.S. Holder may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the Shares or ADSs and on the receipt of distributions on the Shares or ADSs to the extent such gain or distribution is treated as an "excess distribution" under the United States federal income tax rules, and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds our Shares or ADSs, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our Shares or ADSs.

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INFORMATION ABOUT THE [REDACTED]

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SUMMARY OF EXEMPTIONS AS A FOREIGN PRIVATE ISSUER IN THE U.S.

As required by Rule 19C.14 of the Hong Kong Listing Rules, set forth below is a summary of the exemptions from obligations under U.S. securities laws and Nasdaq rules that we enjoy as a foreign private issuer in the U.S.

INFORMATION ABOUT THE [REDACTED]

Exemptions from Nasdaq rules

Foreign private issuers are exempted from certain corporate governance requirements of Nasdaq. Foreign private issuers are permitted to follow home country practice, i.e. for us, the practice of the Cayman Islands, in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the Nasdaq listing standards and explain the basis for the conclusion that the exemption is applicable. Specifically, we currently follow our home country practice that (i) does not require us to hold an annual meeting of shareholders no later than one year after the end of our fiscal year, (ii) does not require us to seek shareholder approval for adopting or materially amending our share incentive plans, (iii) does not require a majority of our board of directors to be independent directors, and (iv) does not require compensation committee and nomination committee of our board of directors to be solely composed of independent directors. There are no other significant differences between our corporate governance practices and those followed by U.S. domestic companies under Nasdaq rules. However, we undertake that we will (i) hold an annual general meeting every year after the [REDACTED] and (ii) put forth a resolution at the First GM to be convened within six months of the [REDACTED] to amend our Articles of Association to provide for an annual general meeting every year, even though there may not be any resolutions to be approved by the shareholders at such meetings. See "Waivers and Exemptions – Requirements Relating to the Articles of Association of our Company" for further details.

Exemptions from SEC rules and regulations under U.S. federal securities laws

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

INFORMATION ABOUT THE [REDACTED]

Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year covered by the annual reports.

WAIVERS AND EXEMPTIONS

In preparation for the [REDACTED], our Company has sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and have applied for a ruling under the Takeovers Code:

Rules	Subject matter
Rule 2.07A of the Hong Kong Listing Rules	Printed Corporate Communications
Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements Relating to the Accountants' Report
Rules 4.10, 4.11, 19C.10D and 19C.23 of the Hong Kong Listing Rules	Adoption of U.S. GAAP
Appendix 3 to the Hong Kong Listing Rules	Requirements Relating to the Articles of Association of our Company
Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in Shares prior to [REDACTED]

[REDACTED]

Rule 13.25B of the Hong Kong Listing Rules	Monthly Return
Paragraphs 13 and 26 of Appendix 1A to the Hong Kong Listing Rules and Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Particulars of any Commissions, Discounts and Brokerages, Alterations of Capital and Authorized Debentures
Paragraph 28(1)(b)(i), (ii) and (v) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements in respect of Suppliers

WAIVERS AND EXEMPTIONS

Rules	Subject matter
Paragraphs 28(1)(b)(iii), (iv) and (v) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements in respect of Customers
Paragraph 27 of Appendix 1A of the Hong Kong Listing Rules and Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements of Options
Paragraph 29(1) of Appendix 1A to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure of Information on Subsidiaries Whose Profits or Assets Make Immaterial Contributions to the Company
Paragraphs 33(2), 33(3), 46(2), 46(3) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements of the Remuneration of Directors and Five Individuals Whose Emoluments Were the Highest
Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules	Three-year Restriction on Spin-offs

[REDACTED]

Section 4.1 of the Introduction to the Takeovers Codes	Not a public company in Hong Kong under the Takeovers Code
Part XV of the SFO	Disclosure of interests under Part XV of the SFO
Paragraphs 41(4) and 45 of Appendix 1A to and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of Interests Information

WAIVERS AND EXEMPTIONS

PRINTED CORPORATE COMMUNICATIONS

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

Our Company's ADSs have been listed on the Nasdaq Global Market since December 14, 2018 and the Nasdaq Global Select Market since November 19, 2020. Our Company has a diverse shareholder base with ADS holders globally.

Our Company does not currently produce or send out any corporate communications to its shareholders or holders of ADSs in printed form unless requested or in limited circumstances. Our Company publicly files or furnishes various corporate communications with the SEC which are posted on the SEC's website. Our Company's annual reports on Form 20-F and current reports on Form 6-K are also available free of charge on its website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, our Company will post its proxy materials and notices to its shareholders and holders of ADSs on a publicly accessible website. Those documents will also be available on our Company's website.

Apart from the [REDACTED] that our Company will [REDACTED] in Hong Kong, the [REDACTED] will be placed to professional, institutional, corporate and other [REDACTED] in Hong Kong and elsewhere in the world. Given our Company's diverse shareholder base and the potential number of countries in which its shareholders are located, our Company considers that it would not be practicable for our Company to send printed copies of all its corporate communications to all of its shareholders. Further, our Company considers that it would also not be practicable for our Company to approach its existing shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead.

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with Rule 2.07A of the Hong Kong Listing Rules on the conditions that our Company will:

- (a) issue all future corporate communications as required by the Hong Kong Listing Rules on its own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese;
- (b) provide printed copies of proxy materials in English and Chinese to its shareholders at no costs upon request; and

WAIVERS AND EXEMPTIONS

- (c) ensure that the "Investor Relations" page of its website (<http://ir.360shuke.com>) will direct [REDACTED] to all of its future filings with the Hong Kong Stock Exchange.

DISCLOSURE REQUIREMENTS RELATING TO THE ACCOUNTANTS' REPORT

Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance set out certain historical financial information to be included in a listing document that is not required to be disclosed under U.S. GAAP, including in particular:

- (a) balance sheet at a company level;
- (b) aging analysis of accounts receivables;
- (c) aging analysis of accounts payables; and
- (d) adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on.

In accordance with U.S. GAAP, our Company has applied the modified retrospective method to account for the impact of the adoption of certain new accounting standards in the Track Record Period. Under the modified retrospective method adopted by our Group, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, our Company adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", or ASC 326, and "Accounting Standards Update 2016-02 "Leases" (Topic 842)", including certain transitional guidance and subsequent amendments, or ASC 842. The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the "Accountants' Report" in Appendix IA to this document. For details of the impact of the adoption of ASC 326 and ASC 842, please refer to disclosure in accounting policies for "Allowance for credit losses", "Guarantee liabilities" (in relation to ASC 326) and "Operating Leases" (in relation to ASC 842) in the "Accountants' Report" in Appendix IA to this document.

This [REDACTED] includes the following alternative disclosures:

- (a) for certain new accounting standards that came into effect during the Track Record Period, the accounting policies as well as the impact of adoption, if any, to the beginning accumulated deficit of initial application (i.e. January 1, 2019, 2020 and 2021) has been disclosed in the "Accountants' Report" in Appendix IA to this [REDACTED] in accordance with the relevant requirements under U.S. GAAP; and

WAIVERS AND EXEMPTIONS

- (b) disclosure of the relevant accounting policies adopted for the Track Record Period in the "Accountants' Report" in Appendix IA to this [REDACTED].

As this [REDACTED] has included the above alternative disclosures and the current disclosure in the this [REDACTED] contains all information which is necessary for the [REDACTED] to make an informed assessment of the business, asset and liability, financial position, trading position, management and prospect of the Group, our Company believes that it would be of no material value to the Hong Kong [REDACTED] and be unduly burdensome for the Accountants' Report in Appendix IA to this [REDACTED] to include certain required information pursuant to Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of the Group has been disclosed in this document, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of the [REDACTED].

Our Company has applied for, [and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements under Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document. Further, our Company has applied for, and the SFC [has granted], an exemption from strict compliance with the requirements under Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC [has granted] the abovementioned exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this [REDACTED] will be issued on or before [REDACTED].

ADOPTION OF U.S. GAAP

Rules 4.10 and 4.11 of the Hong Kong Listing Rules require our Company to prepare its financial statements in the [REDACTED] and the subsequent financial reports issued after [REDACTED] to be in conformity with: (a) Hong Kong Financial Reporting Standards ("HKFRS"); or (b) International Financial Reporting Standards ("IFRS").

Rule 19C.10D of the Hong Kong Listing Rules provides that accountants' reports are required to conform with financial reporting standards acceptable to the Hong Kong Stock Exchange, which are normally HKFRS or IFRS. Where the Hong Kong Stock Exchange allows a report to be drawn up otherwise than in conformity with HKFRS or IFRS, the Hong Kong Stock Exchange may, having regard to the exchange on which the overseas issuer has its primary listing, require the report to contain a reconciliation statement setting out the financial effect of the material differences (if any) from either HKFRS or IFRS.

WAIVERS AND EXEMPTIONS

In Guidance Letter HKEX-GL111-22 (“**GL111-22**”), the Hong Kong Stock Exchange has indicated that it has accepted that the financial statements and accountants’ reports of overseas issuers with, or seeking, a dual-primary or secondary listing in the United States and on the Hong Kong Stock Exchange can be prepared in conformity with U.S. GAAP. GL111-22 further provides that, an overseas issuer adopting a body of financial reporting standards other than HKFRS or IFRS for the preparation of its financial statements must include a reconciliation statement setting out the financial effect of any material differences between those financial statements and financial statements prepared using HKFRS or IFRS in its accountants’ reports and annual/interim/quarterly reports.

In Note 5 to Rule 19C.10D of the Hong Kong Listing Rules and paragraph 35 of GL111-22, it provides that, for U.S.-listed secondary listing applicants, the requirement for the preparation of a reconciliation statement in respect of the accountants’ report prepared under US GAAP in a listing document applies to listing applications submitted on or after January 1, 2023.

As a company listed on the Nasdaq while seeking for the secondary [**REDACTED**] on the Hong Kong Stock Exchange, our Company uses U.S. GAAP, and corresponding audit standards for the filing of our financial statements with the SEC as determined by the United States Public Company Accounting Oversight Board. U.S. GAAP is well recognized and accepted by the international investment community, and significant progress has been made in the convergence between U.S. GAAP and IFRS. Additionally, we note that it might lead to confusion among our [**REDACTED**] and shareholders if we were required to adopt different accounting standards for our Company’s disclosures in Hong Kong from those in the U.S. Aligning the accounting standards used for disclosures in both markets will alleviate any such confusion.

Our Company has applied to the Hong Kong Stock Exchange for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements of Rules 4.10, 4.11, 19C.10D and 19C.23 of the Hong Kong Listing Rules to allow the financial statements and accountants’ report in this document to be prepared based on U.S. GAAP, subject to the following conditions:

- (a) we will include a reconciliation statement as required by Rule 19C.23 of the Hong Kong Listing Rules and GL111-22, setting out the financial effect of any material differences between the financial statements prepared using U.S. GAAP and financial statements prepared using HKFRS or IFRS in our first annual financial statements for the financial year commencing on or after January 1, 2022 and subsequent interim and annual financial statements. When the relevant financial statements are not audited or reviewed by auditors, such reconciliation statements required to be included as a note to such financial statements will be reviewed by our auditor in accordance with a standard comparable to International Standard on Assurance Engagements 3000 or Hong Kong Standard on Assurance Engagements 3000;

WAIVERS AND EXEMPTIONS

- (b) we will comply with Rules 4.08 and 19C.10E of the Hong Kong Listing Rules and paragraphs 30 to 34 of GL111-22;
- (c) we will use HKFRS or IFRS in the preparation of our financial statements in the event that we are no longer listed in the U.S. or have no obligation to make financial disclosure in the U.S.; and
- (d) this waiver request will not be applied generally and is based on the specific circumstances of our Company.

REQUIREMENTS RELATING TO THE ARTICLES OF ASSOCIATION OF OUR COMPANY

Rule 19C.02A(1)(b) of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange may refuse a listing if in its opinion the overseas issuer's primary listing is or is to be on an exchange that cannot provide the shareholder protection standards that are at least equivalent to those provided in Hong Kong. Pursuant to Appendix 3 to the Hong Kong Listing Rules, an issuer must demonstrate how the domestic laws, rules and regulations to which it is subject and its constitutional documents, in combination, provide the shareholder protection standards set out in Appendix 3 to the Hong Kong Listing Rules (the "**Listing Rules Articles Requirements**").

Our Company's Articles do not comply with some of the Listing Rules Articles Requirements, namely, paragraphs 4(2), 14(1), 14(2), 14(3), 14(4), 14(5), 15, 16, 17, 18, 19, 20, and 21 of Appendix 3 to the Hong Kong Listing Rules (together, the "**Unmet Listing Rule Articles Requirements**"). As the [REDACTED] is highly confidential and subject to significant uncertainties, and convening a general meeting prior to the [REDACTED] to approve the relevant amendments to the existing Articles to comply with the Unmet Listing Rules Articles Requirements would require us to notify all the shareholders trading of our Company's ADSs on the Nasdaq, we believe that strict compliance with Rule 19C.02A(1)(b) of and Appendix 3 to the Hong Kong Listing Rules to incorporate the Unmet Listing Rules Articles Requirements in our Articles at the time of the [REDACTED] will be unduly burdensome and inappropriate. In particular, the nature of the relevant amendments to the existing Articles, which includes explicit references to the Hong Kong Listing Rules, may invite speculative trading of our Nasdaq-listed ADSs before the [REDACTED], and disrupt the market. As such, our Company will seek shareholders' approval to incorporate the Unmet Listing Rules Articles Requirements into its Articles in the First GM (i.e. a general meeting to be convened within six months from the date of [REDACTED]).

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Details of how the Unmet Listing Rules Articles Requirements will be incorporated into our Company's Articles are set out below:

- (1) Any director appointed by our Director to fill a causal vacancy on our Board or as an addition to the existing Board shall hold office only until the first annual general meeting of our Company after his or her appointment and shall then be eligible for re-election at that meeting (paragraph 4(2) of Appendix 3);
- (2) Our Company shall in each financial year hold a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as may be determined by our Directors (paragraph 14(1) of Appendix 3);
- (3) An annual general meeting shall be called by not less than 21 days' notice in writing and at least 14 days' notice in writing shall be given for any other general meeting (including an extraordinary general meeting) (paragraph 14(2) of Appendix 3);
- (4) Subject to any rights and restrictions for the time being attached to any share of our Company, (a) every shareholder present shall, at a general meeting of our Company, have the right to speak; and (b) on a show of hands every shareholder present shall, at a general meeting of our Company, each have one vote, and (c) on a poll every shareholder present at the meeting shall have one vote for each share of which he or the person represented by proxy is the holder (paragraph 14(3) of Appendix 3);
- (5) That, where any shareholder is, under the Hong Kong Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted (paragraph 14(4) of Appendix 3);
- (6) A shareholders' requisition is a requisition of one or more members holding at the date of deposit of the requisition shares which carry in aggregate not less than 10% of all votes, on a one vote per share basis, attaching to all issued and outstanding shares of our Company that as at the date of the deposit carry the right to vote at general meetings of our Company, and such members may add resolutions to the meeting agenda (paragraph 14(5) of Appendix 3);
- (7) The rights attaching to any class may, subject to any rights or restrictions attached to that class, only be changed by a super-majority vote of the Company's members of the class to which the rights are attached or with the consent in writing of the holders of not less than three-fourths in the nominal value of the issued shares of that class. A "super-majority vote" means at least three-fourths of the members holding shares in that class present and voting in person or by proxy at a separate general meeting of members of that class (paragraph 15 of Appendix 3);

WAIVERS AND EXEMPTIONS

- (8) A super-majority vote of the Company's members in a general meeting shall be required to approve changes to the Company's Articles. A "super-majority vote" means at least three-fourths of the members holding shares in that class present and voting in person or by proxy at a separate general meeting of members of that class (paragraph 16 of Appendix 3);
- (9) Our Company shall at every annual general meeting by ordinary resolution (being a resolution (a) passed by a simple majority of the votes cast by such shareholders of our Company as, being entitled to do so, vote in person or by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting of our Company, or (b) approved in writing by all of the shareholders of our Company entitled to vote at a general meeting of our Company) appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution. The remuneration of the auditors shall be fixed by our Company by ordinary resolution at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to the Board (paragraph 17 of Appendix 3);
- (10) Any shareholder entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person (who need not be a shareholder of our Company) as his proxy to attend and vote instead of him. Any corporation which is a shareholder or a director may by resolution of its directors or other governing body authorize such person (who need not be a shareholder of our Company) as it thinks fit to act as its representative at any meeting of our Company or of any meeting of holders of a class or of the directors or of a committee of directors, and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual shareholder or director. Where a corporation is so represented, it shall be treated as being present at any meeting (paragraph 18 of Appendix 3);
- (11) If a recognized clearing house (or its nominee(s)) or depositary (or its nominee(s)) is a member of our Company it may, by resolution of its directors or other governing body or by power of attorney, authorize such person(s) as it thinks fit to act as its representative(s) at any general meeting of our Company or of any class of shareholders provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person so authorized pursuant to the Articles shall be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) or depositary (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) or depositary (or its nominee(s)) could exercise if it were an individual member holding the number and class of shares specified in such authorization, including the right to vote individually on a show of hands and the right to speak at general meetings (paragraph 19 of Appendix 3);

WAIVERS AND EXEMPTIONS

- (12) Any register held in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Board may impose) be open for inspection by a shareholder without charge and any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Hong Kong Listing Rules as the Board may determine for each inspection, provided that our Company may be permitted to close the register in terms equivalent to section 632 of the Companies Ordinance (paragraph 20 of Appendix 3); and
- (13) A super-majority vote of the Company's members in a general meeting shall be required to approve a voluntary winding up of the Company. A "super-majority vote" means at least three-fourths of the members holding shares in that class present and voting in person or by proxy at a separate general meeting of members of that class (paragraph 21 of Appendix 3).

In addition, to further enhance its shareholder protection measures, the Company will at the First GM propose to its shareholders to amend its Articles to (i) require a general meeting postponed by the Directors to be postponed to a specific date, time and place (the "**GM Postponement Requirement**"), and (ii) remove the shareholding structure of Class B ordinary shares and provisions related to Class B ordinary shares (the "**Class B Removal Requirement**," together with the Unmet Listing Rule Articles Requirements and the GM Postponement Requirement, the "**Unmet Articles Requirements**").

As advised by our Company's legal adviser as to Cayman Islands laws, subsequent to the conversion of all of the Class B ordinary shares to Shares which entitle holders to one vote per share upon the completion of the [REDACTED] pursuant to the conversion notice [delivered] by Aerovane Company Limited such that there will no longer be any issued Class B ordinary shares as of the First GM date, the amendment of our Company's Article to incorporate the Unmet Articles Requirements will require approval by a special resolution of our Company passed by not less than two-thirds of the votes cast by the shareholders voting in person or by proxy at the First GM. No separate class meeting will be required as there will no longer be any holders of Class B ordinary shares subsisting at the First GM date. The quorum for such general meeting will be members controlling one-third of all votes attaching to all Shares in issue in our Company present in person or by proxy pursuant to article 65 of our Company's Articles.

Unwinding of our weighted voting rights structure

Under our current weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 20 votes, respectively, on all matters that require a shareholder's vote.

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Upon the [REDACTED], all the issued and outstanding Class B ordinary shares shall be converted into Class A ordinary shares on a one-for-one basis pursuant to the conversion notice [delivered] by Aerovane Company Limited to our Company which will take effect upon [REDACTED]. Subsequently, no issued and outstanding Class B ordinary shares of our Company shall be subsisting upon [REDACTED].

Furthermore, at the First GM, we will put forth for voting certain changes to the Articles of our Company which include, amongst others, the unwinding of the weighted voting rights structure of our Company through the removal of all references to the Class B ordinary shares in the Articles. Subsequently, all the issued Shares of our Company will entitle their holders to one vote per Share at a general meeting of our Company.

Upon the [REDACTED], all the Class B ordinary shares shall be converted into A ordinary shares on a one-for-one basis. Accordingly, Mr. Zhou will be interested in approximately [REDACTED]% of the total issued share capital of our Company, representing approximately [REDACTED]% of the aggregate voting power of the total issued and outstanding Shares (excluding the shares issued and reserved for future issuance upon the exercising or vesting of awards granted under the Share Incentive Plan, and assuming the [REDACTED] is not exercised and no Shares are issued under the Share Incentive Plans). Furthermore, all the directors and executive officers as a group (including Mr. Zhou) will be entitled to approximately [REDACTED]% of the aggregate voting power of the Company upon the [REDACTED].

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the Unmet Articles Requirements, which shall only remain in force until the relevant proposed resolutions to incorporate the Unmet Articles Requirements have been approved by the shareholders, subject to the conditions that:

- (a) at the First GM, our Company will put forth the abovementioned resolutions to amend its Articles to comply with the Unmet Articles Requirements (the “**Proposed Resolutions**”);
- (b) Mr. Zhou and each of our Directors and executive officers will, prior to the [REDACTED], irrevocably undertake to our Company to be present at the First GM and to vote in favor of the Proposed Resolutions;
- (c) if any of the Proposed Resolutions are not passed at the First GM, until they are all approved by the shareholders, our Company will continue to put forth the Proposed Resolutions that have not been passed at each subsequent annual general meeting, and Mr. Zhou and each of our Directors and executive officers of our Company will, prior to the [REDACTED], irrevocably undertake to continue to be present and vote in favor of such Proposed Resolutions at such a meeting;
- (d) our Company will issue a press release announcing its support publicly for the Proposed Resolutions each year after the [REDACTED] until all the Proposed Resolutions are adopted;

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- (e) our Company will, prior to the [REDACTED], irrevocably undertake to the Hong Kong Stock Exchange that it (i) will comply with the Unmet Articles Requirements in full (the “Undertaking for Interim Compliance”), except for the approval requirements under paragraphs 15 and 16 of Appendix 3 to the Hong Kong Listing Rules solely for the purpose of approving the Proposed Resolutions to amend its Articles at the First GM or at each subsequent annual general meeting, and (ii) will not issue any further shares with weighted voting rights on or after the [REDACTED] and before its Articles are formally amended to incorporate the Unmet Articles Requirements;
- (f) Mr. Zhou and each of our Directors will, prior to the [REDACTED], irrevocably undertake to our Company that they will procure our Company (i) to give effect to the Undertaking for Interim Compliance and (ii) not to issue any further shares with weighted voting rights on or after the [REDACTED] and before its Articles are formally amended; and
- (g) our Company remains listed on the Nasdaq.

The nature of the amendments is to enhance shareholder protection and remove the weighted voting rights structure, which is in the best interests of our Company and its shareholders as a whole. Our Company and Mr. Zhou acknowledged and agreed in the relevant undertakings that the undertakings are intended to confer a benefit on all the existing and future shareholders of our Company.

If any holders of any ADSs fail to give valid or timely voting instructions to the ADS depositary bank with respect to the Proposed Resolutions, our Company will procure any discretionary proxy it may be entitled to designate under the deposit agreement for the ADSs to vote the underlying Class A ordinary shares in favor of the Proposed Resolutions.

Our Company’s legal adviser as to the laws of the Cayman Islands confirms that the Undertaking for Interim Compliance will not violate the laws and regulations of the Cayman Islands applicable to our Company, provided that the existing shareholder rights of our Company’s shareholders under our Existing Articles are observed, and our Company confirms that, having consulted its other legal advisers, the Undertaking for Interim Compliance will also not violate other laws and regulations applicable to our Company.

Notwithstanding the above, our Company intends to hold the First GM within six months after the [REDACTED] to put forth the relevant resolutions for revising the Articles.

Notwithstanding the above, there is no guarantee that the Proposed Resolutions will be passed at the First GM and there is uncertainty as to the outcome of the First GM since the weighted voting rights beneficiary will no longer have any enhanced voting power upon the [REDACTED] or be in a position to exert significant influence over the outcome of the shareholders’ resolutions. Prospective [REDACTED] should make the decision to [REDACTED] in our Company only after due and careful consideration.

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DEALINGS IN SHARES PRIOR TO [REDACTED]

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the “**Relevant Period**”).

Our Company had approximately 46 subsidiaries and operating entities as of June 30, 2022, and its ADSs are widely held, publicly traded and listed on the Nasdaq. Our Company considers that it is therefore not in a position to control the investment decisions of its shareholders or the investing public in the U.S.

Solely based on public filings with the SEC as of the Latest Practicable Date, other than Mr. Hongyi Zhou and his affiliates (as detailed in the section headed “**Major Shareholders**”), there are no other shareholders who controlled more than 10% of the voting rights of our Company.

For a company whose securities are listed and traded in the U.S., the Company notes that it is a common practice for substantial shareholders and corporate insiders, including directors, executives and other members of management, to set up trading plans that meet the requirements of Rule 10b5-1 under the U.S. Exchange Act (the “**Rule 10b5-1 Plan(s)**”) to buy or sell the company’s securities. A Rule 10b5-1 Plan is a written plan, set up with a broker, to trade securities that (a) is entered into at a time when the person trading the securities is not aware of any material non-public information; (b) specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold; and (c) does not allow the person trading the securities to exercise any subsequent influence over how, when, or whether to effect purchases or sales. Persons who trade securities pursuant to a Rule 10b5-1 Plan have an affirmative defense against insider trading allegations under U.S. securities law.

On the basis of the above, our Company considers that the following categories of persons (collectively, the “**Permitted Persons**”) should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- (a) our Directors and chief executives, and the directors and chief executives of our Company’s Significant Subsidiaries, and their close associates, in respect of (i) their respective dealings pursuant to Rule 10b5-1 Plans that they have set up prior to the Relevant Period and (ii) their respective use of the Shares as security (including, for the avoidance of doubt, using their respective shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 1**”);

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- (b) directors, chief executives and substantial shareholders of our Company’s non-Significant Subsidiaries and their close associates (“**Category 2**”); and
- (c) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become our Company’s substantial shareholder and who is not its director or chief executive, or a director or chief executive of our Company’s subsidiaries, or their close associates (“**Category 3**”).

For the avoidance of doubt:

- (a) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and
- (b) persons in Category 1 who (i) use their respective Shares other than as described in this section headed “Dealings in the Shares prior to [REDACTED]” or (ii) who are not dealing in the Company’s securities according to Rule 10b5-1 Plans set up before the Relevant Period are subject to the restrictions under Rule 9.09(b) of the Hong Kong Listing Rules; and
- (c) other than Mr. Andrew Y Yan who pledged 1,000,000 Shares controlled by him in the Company, none of the persons under Category 1 had pledged the Shares as security as at June 30, 2022 nor as at the Latest Practicable Date.

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules on the following conditions:

- (a) Where Category 1 of the Permitted Persons use the Shares as security, there will be no change in the beneficial ownership of the Shares at the time of entering into the relevant transactions during the Relevant Period;
- (b) Category 1 of the Permitted Persons who entered into Rule 10b5-1 Plans have no discretion over dealings in the Company’s ADSs after the plans have been entered into;
- (c) Categories 2 and 3 of the Permitted Persons do not have any influence over the [REDACTED] and do not possess any non-public inside information of our Company given that such persons are not in a position with access to information that is considered material to our Company taken as a whole. Given the large number

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of our Company's subsidiaries and its vast ADS holder base, our Company and its management do not have effective control over the investment decisions of Categories 2 and 3 of the Permitted Persons in its ADSs;

- (d) our Company will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 persons) are not in possession of any non-public inside information of which our Company is aware;
- (e) our Company will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of its core connected persons during the Relevant Period when it becomes aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and
- (f) prior to the [REDACTED] Date, other than within the permitted scopes set out above, our Directors and chief executive and the directors and chief executives of its Significant Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such prohibited dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of incentive and non-statutory options, restricted shares, RSUs, dividend equivalents, and share payments under the Group's share incentive plans.

The Company believes, subject to the conditions set forth in sub-paragraph (c) above, the dealings in the Company's securities by its core connected persons will not prejudice the interests of the potential [REDACTED] of the Company and that the circumstances relating to this waiver align with the principles in the Hong Kong Stock Exchange's Guidance Letter HKEX-L42-12.

[REDACTED]

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[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

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[REDACTED]

MONTHLY RETURN

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates.

According to the note to Rule 13.25B of the Hong Kong Listing Rules, this common waiver is subject to the condition that the issuer can meet one of the following three conditions:

- (a) it has received a relevant partial exemption from Part XV of the SFO;
- (b) it publishes a “next day disclosure return” in strict compliance with Rule 13.25A of the Hong Kong Listing Rules; or

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- (c) it is subject to overseas laws or regulations that have a similar effect to Rule 13.25B of the Hong Kong Listing Rules and any differences are not material to shareholder protection.

Our Company has obtained a relevant partial exemption from strict compliance with Part XV of the SFO. Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the continuing obligations under Rule 13.25B of the Hong Kong Listing Rules. Our Company will disclose information about share repurchases, if any, in our Company's annual reports on Form 20-F which are furnished or filed with the SEC and will also disclose such information, if material, in our Company's quarterly earnings releases in accordance with applicable U.S. rules and regulations.

PARTICULARS OF ANY COMMISSIONS, DISCOUNTS AND BROKERAGES, ALTERATIONS OF CAPITAL AND AUTHORIZED DEBENTURES

Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 14 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any capital of any member of the group and the particulars of any alterations of capital within two years immediately preceding the issue of the listing document.

Paragraph 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires particulars of the authorized debentures of our Company and its subsidiaries to be disclosed in this document.

Our Company has identified eight entities as its Significant Subsidiaries. For further details, see the section headed "History and Corporate Structure – Significant Subsidiaries and Operating Entities" in this document. Our Company had approximately 46 subsidiaries and operating entities as of June 30, 2022. Our Company believes that it would be unduly burdensome for our Company to disclose this information in respect of its non-Significant Subsidiaries as our Company would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to [REDACTED]. The non-disclosure of such information will not prejudice the interests of [REDACTED]. We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of the Group has been disclosed in this document, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of [REDACTED].

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The Significant Subsidiaries include all significant operating subsidiaries under the financial threshold of Regulation S-X in the U.S. (i.e. contributing more than 10% of the Group’s total assets and income) and subsidiaries that are material to the Group’s business operations (including those that hold major intellectual properties). None of the non-Significant Subsidiaries is individually material to us in terms of its contribution to our Company’s total net revenue, total net income or total assets or holds any major assets and intellectual property rights.

By way of illustration, the aggregate revenue of the Significant Subsidiaries accounted for more than 89.4%, 85.6%, 88.9% and 87.8% of the total revenues of the Group for the year ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively, and the total assets of the Significant Subsidiaries represented 73.7%, 85.8%, 84.6% and 86.4% of the total assets of the Group as at December 31, 2019, 2020 and 2021, and as at June 30, 2022, respectively. There was no other individual non-Significant Subsidiaries that contributed more than 5% of the total revenues and total assets of the Group attributable to them individually for the relevant period, nor do they hold any major assets, licenses, intellectual property right, proprietary technologies or R&D. As such, our Company has disclosed the particulars of the changes in its share capital and the Significant Subsidiaries in the section headed “Statutory and General Information – Further Information About Us” in Appendix IV to this document, and particulars of the commissions, discounts, brokerage fee and authorized debentures in respect of the Significant Subsidiaries and our Company are set out in the section headed “Statutory and General Information – Other Information – Miscellaneous” of Appendix IV to this document.

The disclosure of the relevant information with respect to our Significant Subsidiaries provides sufficient information that is reasonably necessary to enable potential [REDACTED] to make an informed assessment of “the activities, assets and liabilities, financial position, management and prospects of our Company and of its profits and losses and of the rights attaching to such securities” (per Rule 11.07 of the Hong Kong Listing Rules); and having regard to the disclosure of the relevant information with respect to its Significant Subsidiaries and the fact that such information do not pertain to the business of our Company, the non-inclusion of the information with respect to the non-Significant Subsidiaries does not prejudice the interest of [REDACTED].

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from the requirements under paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document. Further, our Company has applied for[, and the SFC has granted,] an exemption from the requirements under paragraphs 11, 14 and 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC [has granted] the abovementioned exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this [REDACTED] will be issued on or before [REDACTED].

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DISCLOSURE REQUIREMENTS IN RESPECT OF SUPPLIERS

Paragraphs 28(1)(b)(i) and (ii) of Appendix 1A to the Hong Kong Listing Rules require the listing document to include a statement of the percentage of purchases attributable to the group’s largest supplier and a statement of the percentage of purchases attributable to the group’s five largest suppliers combined, respectively.

Paragraph 28(1)(b)(v) of Appendix 1A to the Hong Kong Listing Rules requires the listing document to include a statement of the interest of any of the directors, their close associates; or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the issuer) in the group’s top five suppliers. Sub-paragraph (vi) further provides that in the event that the percentage which would fall to be disclosed under sub-paragraphs (i), (ii) and (v) above is less than 30, a statement of that fact shall be given and the information required in sub-paragraphs (i), (ii) and (v) (in respect of suppliers) may be omitted.

Rule 19.36(1) of the Hong Kong Listing Rules provides that certain disclosure requirements under Parts A and B of Appendix 1 to the Hong Kong Listing Rules may be inappropriate and allows such requirements to be appropriately adapted so that equivalent information is given.

Our Company believes that the specific percentage figures required to be disclosed by Paragraphs 28(1)(b)(i) and (ii) of Appendix 1A to the Hong Kong Listing Rules are commercially sensitive and could be exploited by its competitors. Our Company has not publicly disclosed the information strictly required by Paragraphs 28(1)(b)(i) and (ii) of Appendix 1A to the Hong Kong Listing Rules in its SEC filings, nor is it required to do so under U.S. laws and regulations. Our Company has however disclosed in the section headed “Business – Customers and Suppliers” in this document that its five largest suppliers accounted for less than 30% of our purchases for each of the years ended December 31, 2020 and 2021, approximately 40.9% for the year ended December 31, 2019 and approximately 40.1% for the six months ended June 30, 2022, and none of them individually accounted for more than 14% of its purchases for the year ended December 31, 2020 and 2021 and for the six months ended June 30, 2022, and not more than 25% for the year ended December 31, 2019. More specifically, the largest supplier in each year or period during the Track Record Period accounted for 24.4%, 5.4%, 9.1% and 13.1% of our total purchase for 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively, whereas each of the rest of the top five suppliers only account for 1.9% to 9.3% of our Company’s total purchase for each year or period. For further information on the major suppliers of our Company, see “Business – Our suppliers” in this document. Furthermore, our Company has never publicly disclosed such information nor is it required to do so under the applicable U.S. laws and regulations. Our Company, taking into account that it is seeking a secondary [REDACTED] on the Hong Kong Stock Exchange, believes that the current disclosure in this document provides sufficient information to [REDACTED] to make an informed assessment of our Company’s business.

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As a Nasdaq-listed company, our Company is not in a position to compel its public shareholders who own more than 5% in its issued shares based on public filings (in this case, [FountainVest China Capital Partners GP3 Ltd. and Morgan Stanley]) to disclose to our Company their shareholding interests in its top five suppliers during the Track Record Period. It would also be unduly burdensome for these public shareholders of our Company to ascertain their shareholding interests in our Company’s top five suppliers, because the disclosure requirements under Paragraph 28(1)(b)(v) of Appendix 1A to the Hong Kong Listing Rules are not subject to any materiality or de minimis exemptions or “safe harbors” provisions. The same difficulties would apply to our Directors who are otherwise required to disclose their, and their close associates’, shareholding interests in our Company’s top five suppliers. As of the Latest Practicable Date, based on publicly available information and save as disclosed in the section headed “Business – Customers and Suppliers – Our suppliers” in this document, none of our Directors and their close associates, held a 5% or more shareholding interest in the Company’s top five suppliers.

In addition, our Company does not believe that the information strictly required by Paragraph 28(1)(b)(v) of Appendix 1A to the Hong Kong Listing Rules would provide any additional meaningful information to [REDACTED] given that it will not in any event be subject to the connected transaction requirements under Chapter 14A of the Hong Kong Listing Rules, and details of its related party transactions are disclosed in the section headed “Related Party Transactions” in this document.

Our Company has applied for, [and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with Paragraphs 28(1)(b)(i), (ii) and (v) of Appendix 1A to the Hong Kong Listing Rules in respect of our Company’s suppliers, to the extent not strictly met by the current disclosure in this document.

DISCLOSURE REQUIREMENTS IN RESPECT OF CUSTOMERS

Paragraphs 28(1)(b)(iii) and (iv) of Part A of Appendix 1 to the Hong Kong Listing Rules require the listing document to include a statement of the percentage of revenue attributable to the group’s largest customer and a statement of the percentage of revenue attributable to the group’s five largest customers combined, respectively.

Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include a statement of the interest of any of the directors, their close associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the issuer) in the group’s top five customers. Sub-paragraph (vii) further provides that in the event that the percentage which would fall to be disclosed under sub-paragraph (iv) above is less than 30, a statement of that fact shall be given and the information required in sub-paragraphs (iii), (iv) and (v) (in respect of customers) may be omitted.

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Our Company believes that the specific percentage figures required to be disclosed by Paragraphs 28(1)(b)(iii) and (iv) of Part A of Appendix 1 to the Hong Kong Listing Rules are commercially sensitive and could be exploited by its competitors. Our Company has not publicly disclosed the information strictly required by Paragraphs 28(1)(b)(iii) and (iv) of Part A of Appendix 1 to the Hong Kong Listing Rules in its SEC filings, nor is it required to do so under U.S. laws and regulations. Our Company has however made alternative disclosures in the section headed “Business – Customers and Suppliers” in this document that its five largest customers accounted for less than 50% of our revenue for each of the years ended December 31, 2020 and 2021, and for the six months ended June 30, 2022, and approximately 50.4% for the year ended December 31, 2019, and none of them individually accounted for more than 17% of our revenue for the three years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022. More specifically, the largest customer in each year or period during the Track Record Period accounted for 15.9%, 15.0%, 14.9% and 16.8% of our total revenue for 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively, whereas each of the rest of the top five customers only account for 3.1% to 12.6% of our Company’s total revenue for each year or period. For further information on the major customers of our Company, see “Business – Our customers” in this document. Furthermore, our Company has never publicly disclosed such information nor is it required to do so under the applicable U.S. laws and regulations. Our Company, taking into account that it is seeking a secondary [REDACTED] on the Hong Kong Stock Exchange, believes that the current disclosure in this document provides sufficient information to [REDACTED] to make an informed assessment of our Company’s business.

As a Nasdaq-listed company, our Company is not in a position to compel its public shareholders who own more than 5% in its issued shares based on public filings (in this case, [FountainVest China Capital Partners GP3 Ltd. and Morgan Stanley]) to disclose to our Company their shareholding interests in its top five customers during the Track Record Period. It would also be unduly burdensome for these public shareholders of our Company to ascertain their shareholding interests in our Company’s top five customers (especially the companies whose shares are publicly traded), because the disclosure requirements under Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules are not subject to any materiality or de minimis exemptions or “safe harbors” provisions. The same difficulties would apply to our Directors who are otherwise required to disclose their, and their close associates’, shareholding interests in the our Company’s top five customers including the companies whose shares are publicly traded. As of the Latest Practicable Date, based on publicly available information and save as disclosed in the section headed “Business – Customers and Suppliers – Our customers” in this document, none of our Directors and their close associates, held a 5% or more shareholding interest in our Company’s top five customers.

In addition, our Company does not believe that the information strictly required by Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules would provide any additional meaningful information to [REDACTED] given that it will not in any event be subject to the connected transaction requirements under Chapter 14A of the Hong Kong Listing Rules, and details of its related party transactions are disclosed in the section headed “Related Party Transactions” in this document.

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We have applied for, [and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the disclosure requirements under Paragraphs 28(1)(b)(iii), (iv) and (v) of Part A of Appendix 1 to the Hong Kong Listing Rules in respect of our Company’s customers, to the extent not strictly met by the current disclosure in this document.

DISCLOSURE REQUIREMENTS OF OPTIONS

Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires our Company to set out in this document particulars of any capital of any member of the group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.

Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance further requires our Company to set out in this document, among other things, details of the number, description and amount of any of its shares or debentures which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it was given.

In relation to our Company, the only options over the capital or debentures are those issued under our Share Incentive Plans, which are not subject to Chapter 17 of the Hong Kong Listing Rules pursuant to Rule 19C.11 of the Hong Kong Listing Rules.

Details of the Share Incentive Plans are disclosed in the section headed “Directors and Senior Management – Compensation – Share Incentive Plans” in this document. The disclosure is substantially the same as those in our Company’s 20-F filings and comply with applicable U.S. laws and regulations. The current disclosure in this document is therefore not in strict compliance with the requirements under Paragraph 27 of Part A of Appendix 1. Our Company is not required to monitor or disclose the number of grantees under its share incentive plans, but expects that there are a large number of grantees in view of the size of the Group’s business operations and the fact that it had, as of September 30, 2022, more than 2,000 employees. It would require considerable amount of time and management attention for our Company to begin to collate all the content required under paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules. This creates a significant increase in cost and time for information compliance, disclosure preparation and publication. Moreover, our Company would be required to seek and obtain consent from each of the grantees, in order to fully comply with personal data privacy laws and principles, which would also be significantly time consuming and administratively burdensome and costly. Our Company has a history of disclosing substantive details of its share incentive schemes in compliance with applicable U.S. laws and regulations. Our Company believes that strict compliance with such requirements would be unduly burdensome, unnecessary and/or inappropriate for our Company, and would not be material or meaningful to Hong Kong [REDACTED]. The non-disclosure of such information will not prejudice the interests of [REDACTED]. We confirm that all information necessary

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for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of our Group has been disclosed in this document, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of the [REDACTED].

The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2018 Plan is 25,336,096 and that of the 2019 Plan is 17,547,567, plus an annual increase on the first day of each of the four consecutive fiscal years of our Company commencing with the fiscal year beginning January 1, 2021, by (i) an amount equal to 1.0% of the total number of the then issued and outstanding shares or (ii) such fewer number of Shares as may be determined by our Board. Our Board has the authority to amend and modify the Share Incentive Plans. However, no such action may adversely affect in any material way any award previously granted unless prior written consent has been given by the participant.

Pursuant to the Share Incentive Plans, the maximum number of Shares which may be issued for the options granted were 42,883,663 as of September 30, 2022, representing approximately 13.7% of our Company's issued and outstanding Shares as of September 30, 2022. As of September 30, 2022, Shares underlying options that have been granted and are outstanding under the 2018 Plan and 2019 Plan totaled 13,520,030, excluding awards that were forfeited or canceled after the relevant grant dates. Details of the awards granted and are outstanding to several of our Directors and executive officers (excluding awards that were forfeited or canceled after the relevant grant dates) under the Share Incentive Plans, including exercise price and duration of the options, are disclosed in the section headed "Directors and Senior Management – Compensation – Share Incentive Plans" in this document.

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements under Paragraph 27 of Part A of Appendix 1 to the extent not strictly met by the current disclosure in this document.

Further, our Company has applied for[, and the SFC has granted,] an exemption from the requirements under Paragraph 10 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The SFC [has granted] the abovementioned exemption on the conditions that:

- (i) our Company disclosed in this document the number of shares issuable upon exercise of the outstanding options under the Share Incentive Plans and the maximum percentage of options held by our Directors and executive officers and their affiliates to our Company's total outstanding Shares;
- (ii) the particulars of the exemption are set out in this document; and
- (iii) this [REDACTED] will be issued on or before [REDACTED].

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DISCLOSURE OF INFORMATION ON SUBSIDIARIES WHOSE PROFITS OR ASSETS MAKE IMMATERIAL CONTRIBUTIONS TO OUR COMPANY

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by our Company, or whose profits or assets make, or will make, a material contribution to the figures in the Accountants’ Report or the next published accounts.

Our Company believes that it would be unduly burdensome for our Company to procure this information for the reasons as set out in this section headed “– Particulars of any Commissions, Discounts and Brokerages and Alternations of Capital and Authorized Debentures” above. The non-disclosure of such information will not prejudice the interests of [REDACTED]. As such, only the particulars in relation to the Significant Subsidiaries are set out in this document under the sections headed “History – Corporate Structure – Significant Subsidiaries” and “Statutory and General Information – Further Information About Us” in Appendix IV to this document, which should be sufficient for potential [REDACTED] to make an informed assessment of our Company in their [REDACTED] decisions. We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, trading position, management and prospect of the Group has been disclosed in this document, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of the [REDACTED].

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements under paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document. Further, our Company has applied for[, and the SFC has granted,] an exemption from the requirements under Paragraph 29 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted the abovementioned exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this [REDACTED] will be issued on or before [REDACTED].

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DISCLOSURE REQUIREMENTS OF THE REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WHOSE EMOLUMENTS WERE THE HIGHEST

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors’ emoluments during the three financial years ended December 31, 2019, 2020 and 2021. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in the group for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

The aggregate fees, salaries and benefits paid and accrued to our Directors and executive officers as a group are disclosed in the section headed “Directors and Senior Management – Compensation” in this document. Our Company confirms that the current disclosure complies with U.S. annual reporting requirements and is in line with our Company’s disclosure in its annual reports on Form 20-F.

Our Company believes that additional disclosure required by Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would be unduly burdensome and would not provide additional meaningful disclosure for potential Hong Kong [REDACTED].

Our Company has applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with the requirements under Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document.

THREE-YEAR RESTRICTION ON SPIN-OFFS

Rule 19C.11 of the Hong Kong Listing Rules provides that, among other things, paragraphs 1 to 3(b) and 3(d) to 5 of Practice Note 15 to (“PN15”) the Hong Kong Listing Rules do not apply to a Qualifying Issuer that has, or is seeking, a secondary listing on the Hong Kong Stock Exchange. This exception is limited to circumstances where the spun-off assets or businesses are not to be listed on the Hong Kong Stock Exchange’s markets and the approval of shareholders of the Parent (as defined in PN15) is not required. Paragraph 3(b) of PN15 provides that the Listing Committee would not normally consider a spin-off application within three years of the date of listing of the Parent, because the original listing of the Parent

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will have been approved on the basis of the Parent's portfolio of businesses at the time of listing, and the expectation of investors at that time would have been that the Parent would continue to develop those businesses.

Our Company, from time to time, considers different opportunities to bring value to its shareholders, including spinning off any of its business subsidiaries when they have reached a desirable level of maturity. The exact timing of any potential spin-off would depend on the development of each of the business subsidiaries and market conditions. In some cases, it is possible that a spin-off within three years of the [REDACTED] may be appropriate. As of the Latest Practicable Date, our Company has not identified any target for a potential spin-off and as a result our Company does not have any information relating to the identity of any spin-off target or any other details of any spin-off; and accordingly, there is no material omission of any information relating to any possible spin-off in this document. Any potential spin-offs by our Company will be subject to compliance with all applicable requirements under the Hong Kong Listing Rules, including PN15, unless otherwise waived by the Hong Kong Stock Exchange.

No shareholders' approval with respect to a potential spin-off will be required under our Company's Articles under applicable U.S. regulations and Nasdaq rules. Further, as our Company is seeking a secondary [REDACTED] under Chapter 19C of the Hong Kong Listing Rules and is therefore exempt from the requirements under Chapter 14 of the Hong Kong Listing Rules pursuant to Rule 19C.11, no shareholders' approval will be required under the Hong Kong Listing Rules as well.

The effect of a spin-off to our Company's shareholders should be the same regardless of whether or not the businesses to be potentially spun-off are to be listed on the Hong Kong Stock Exchange (save with respect to any preferential rights to subscribe for shares that are commonly provided in spin-offs on the Hong Kong Stock Exchange). Given the fact that certain spin-offs by secondary issuers are allowed within three years after their listing in Hong Kong pursuant to Rule 19C.11 of the Hong Kong Listing Rules, our Company believes that the three-year restriction on spin-offs on the Hong Kong Stock Exchange should also be waived and shall not apply to a potential spin-off by our Company.

Our Company and any subsidiary in respect of which a potential spin-off is contemplated will be subject to compliance with all other applicable requirements under the Hong Kong Listing Rules, including the remaining requirements of PN15 and the applicable listing eligibility requirements under the Hong Kong Listing Rules, unless otherwise waived by the Hong Kong Stock Exchange.

Under U.S. securities laws and Nasdaq rules, our Company is not subject to any restrictions similar to the three-year restriction under paragraph 3(b) of PN15 in relation to the spin-offs of its business subsidiaries, nor is there any requirement for our Company to disclose any details of its potential spin-off entities when such information is not available because of the absence of any concrete spin-off plan.

WAIVERS AND EXEMPTIONS

Our Directors owe fiduciary duties to our Company, including the duty to act in what they consider in good faith to be in the best interests of our Company; as such they will only pursue a potential spin-off if there are clear commercial benefits both to our Company and the entity to be spun off; and the Directors will not direct our Company to conduct any spin-off if they believe it will have an adverse impact on the interests of our Company's shareholders.

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements of paragraph 3(b) of PN15 to be granted on the following conditions:

- (a) our Company will not within three years after the [REDACTED] spin off any of its business subsidiaries on the Hong Kong Stock Exchange until it confirms with the Hong Kong Stock Exchange with basis that the potential spin-off would not render our Company, excluding the subsidiary to be spun off, failing to meet the eligibility or suitability requirements under Rules 19C.02 and 19C.05A of the Hong Kong Listing Rules based on the financial information of the subsidiary to be spun off at the time of the [REDACTED], and where more than one subsidiary is to be spun off, the assessment will be made on a cumulative basis;
- (b) our Company will disclose in this document its intention relating to any potential spin-off on the Hong Kong Stock Exchange within three years after the [REDACTED] and the risks relating to the uncertainty and timing of any potential spin-offs (see "Risk Factors – Divestitures of businesses and assets may have a material and adverse effect on our business and financial condition");
- (c) any potential spin-offs on the Hong Kong Stock Exchange by our Company will be subject to the requirements of PN15 (other than paragraph 3(b) thereof), including that each of our Company and the business subsidiary to be spun off will satisfy the applicable listing eligibility requirements on a standalone basis; and
- (d) disclosure of this waiver in this document.

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

NOT A PUBLIC COMPANY IN HONG KONG UNDER THE TAKEOVERS CODE

Section 4.1 of the Introduction to Takeovers Codes provides that the Takeovers Codes apply to takeovers, mergers and share buy-backs affecting, among others, public companies in Hong Kong and companies with a primary listing in Hong Kong. In order to determine whether a company is a “public company in Hong Kong,” Section 4.2 of the Takeovers Code provides that the Executive will consider all the circumstances and apply an economic or commercial test, taking into account primarily the number of Hong Kong shareholders and the extent of share trading in Hong Kong and other factors including (i) the location of its head office and place of central management; (ii) the location of its business and assets, including such factors as registration under companies legislation and tax status; and (iii) the existence or absence of protection available to Hong Kong shareholders given by any statute or code regulating takeovers, mergers and share repurchases outside Hong Kong.

Our Company has applied for, and the SFC has granted, a ruling that our Company is not a “public company in Hong Kong” for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes do not apply to our Company. In the event that the bulk of trading in our Company’s Shares migrates to Hong Kong such that our Company would be treated as having a dual-primary [REDACTED] pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to our Company.

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SFO

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which our Company is subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our Company’s corporate insiders to a second level of reporting, which would be unduly

WAIVERS AND EXEMPTIONS

burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to our Company and its corporate insiders would provide its [REDACTED] with sufficient information relating to the shareholding interests of its significant shareholders.

Our Company has applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO to our Company, its substantial shareholders, directors and chief executive from strict compliance with the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of part IV of the SFO) on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Listing Rules; (ii) all the disclosures of interests filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) our Company will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our Company's worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

DISCLOSURE OF INTERESTS INFORMATION

Part XV of the SFO imposes duties of disclosure of interests in shares. Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests in this document.

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in the section headed "Major Shareholders" in this document.

Our Company has applied for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules is to be granted on the following conditions:

- (a) the SFC granting our Company, its substantial shareholders, directors and chief executive a partial exemption from strict compliance with Part XV of the SFO;
- (b) our Company undertaking to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC; and
- (c) our Company undertaking to disclose in present and future [REDACTED] documents any shareholding interests as disclosed in an SEC filing and the relationship between its directors, officers, members of committees and their relationship to any controlling shareholders.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name		Address	I.D. issuing countries/ territories
Hongyi Zhou	周鴻禕	No. 102, Apartment 313, Yanbeiyuan, Peking University, Haidian District, Beijing, China	PRC
Haisheng Wu	吳海生	Room 804, Unit 7, Building No. 108, Wang Jing Dong Yuan, Chaoyang District, Beijing, China	PRC
Alex Zuoli Xu	徐祚立	1603, Building No. 6, Fenglinlvzhou, Datun Road Kexueyuan Nanli, Chaoyang District, Beijing, China	Canada
Eric Xiaohuan Chen	陳曉歡	Flat B, 22/F, Kimberley 26, 24-26 Kimberley Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong
Dan Zhao	趙丹	No. 900, Yan'an West Road, Changning District, Shanghai, China	PRC
Jiao Jiao	焦嬌	No. 2, Unit C, Building No. 15, No. 27 Taiping Road, Haidian District, Beijing, China	PRC
Gang Xiao	肖鋼	Building No. 10, District No. 4, Cao Qiao Xin Yuan, Fengtai District, Beijing, China	PRC
Yongjin Fu	付永進	Room 502, No. 30, Lane 1599, Dingxiang Road, Pudong New District, Shanghai, China	PRC
Andrew Y Yan	閻焱	Flat 9, 39 Deep Water Bay Road, Deep Water Bay, Hong Kong	Hong Kong

Further information about the Directors and other senior management members are set out in the section headed "Directors and Senior Management" in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Citigroup Global Markets Asia Limited

50th Floor, Champion Tower

3 Garden Road

Central

Hong Kong

China International Capital Corporation

Hong Kong Securities Limited

29th Floor, One International Finance Centre

1 Harbour View Street

Central

Hong Kong

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

Legal Advisers to our Company

As to Hong Kong and U.S. laws:

**Skadden, Arps, Slate, Meagher & Flom
and affiliates**

42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

As to PRC laws:

Commerce & Finance Law Offices

12-14/F, China World Office 2
No. 1 Jianguomenwai Avenue
Beijing
People's Republic of China

As to Cayman Islands laws:

Maples and Calder (Hong Kong) LLP

26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

**Legal Advisers to the Joint Sponsors and
the [REDACTED]**

As to Hong Kong and U.S. laws:

Kirkland & Ellis

26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:

Jingtian & Gongcheng

34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing, PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Auditor*

Deloitte Touche Tohmatsu
Certified Public Accountants LLP
30/F, Bund Center
222 Yan An Road East
Shanghai 200002
People's Republic of China

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Reporting Accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Industry Consultant

Shanghai iResearch Co., Ltd., China
7th Floor, Tower B
CCIG International Plaza
333 North Caoxi Road
Shanghai
PRC

[REDACTED]

Note:

- * Deloitte Touche Tohmatsu Certified Public Accountants LLP is currently the auditor of the Company's consolidated financial statements that are prepared in conformity with U.S. GAAP. After the [REDACTED], the Company will propose to appoint, Deloitte Touche Tohmatsu, a registered public interest entity auditor in Hong Kong, to audit the consolidated financial statements which will be included in the coming annual report to be published in Hong Kong.

CORPORATE INFORMATION

Registered Office	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal Executive Offices of Main Operations	7/F, Lujiazui Finance Plaza No. 1217 Dongfang Road Pudong New Area Shanghai People's Republic of China
Address in Hong Kong	Room 1901, 19/F, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Company's Website	http://ir.360shuke.com (The information on the website does not form part of this document)
Authorized Representative	Alex Zuoli Xu
Audit Committee	Yongjin Fu (Chairman) Gang Xiao Andrew Y Yan
Compensation Committee	Andrew Y Yan (Chairman) Hongyi Zhou Haisheng Wu
Nominating and Corporate Governance Committee	Hongyi Zhou (Chairman) Andrew Y Yan Jiao Jiao

[REDACTED]

CORPORATE INFORMATION

[REDACTED]

Compliance Advisor

Guotai Junan Capital Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Principal Banks

China Minsheng Banking Corporation Limited (Shanghai Yangtze River Delta Demonstration Zone Branch)

No. 818 Qinghu Road
Qingpu District
Shanghai
People's Republic of China

China Minsheng Banking Corporation Limited (Beijing Wang Jing Branch)

Bo Tai International Commercial Building
No. 122 Nan Hu Dong Yuan
Chaoyang District
Beijing
People's Republic of China

China Merchants Bank (Shenzhen Shangbu Branch)

First Floor, Xinwen Building
No. 1002 Shen Nan Zhong Road
Futian District
Shenzhen
People's Republic of China

HISTORY AND CORPORATE STRUCTURE

OVERVIEW

Since inception, our Company has been operating the Credit-Tech platform in China which enables an effective match between credit demand and supply by offering Credit-Tech services. As a spin-off from the 360 Group, we started operating independently in July 2016, when Shanghai Qibutianxia (formerly known as Beijing Qibutianxia Technology Co., Ltd.) incorporated Shanghai Qiyu.

In March 2017, Fuzhou Microcredit was founded and obtained the approval to conduct online micro-lending business. In June 2018, Fuzhou Financing Guarantee was founded and obtained the license to provide financing guarantee services.

In April 2018, we were incorporated in the Cayman Islands as an offshore holding company under our former name, 360 Finance, Inc., to facilitate our financing and offshore listing on Nasdaq. In May 2018, all shareholders of Shanghai Qibutianxia adopted a unanimous resolution to reorganize for offshore listing and determine to spin off the Credit-Tech service, micro-lending as well as related financing guarantee businesses, which were operated by Shanghai Qiyu, Fuzhou Microcredit and Fuzhou Financing Guarantee, all of which are our Consolidated Affiliated Entities. We conduct our business in the PRC through our subsidiaries and variable interest entities.

During the reorganization process we issued ordinary shares and preferred shares to the beneficial owners of Shanghai Qibutianxia in exchange for the contribution of Shanghai Qiyu, Fuzhou Microcredit and Fuzhou Financing Guarantee. In addition, we have incorporated a wholly-owned subsidiary, HK Qirui, as our offshore holding company in Hong Kong and further incorporated a wholly-owned subsidiary in China, Shanghai Qiyue, which is also referred to as our WFOE. For further details, see “Contractual Arrangements” in this document.

KEY MILESTONES

Our key business milestones are summarized below:

Date	Event
2016	We started operating independently from the 360 Group subsequent to the establishment of Shanghai Qiyu in July.
2017	In March, Fuzhou Microcredit was established and obtained the approval to conduct online micro-lending business.
2018	We officially launched the capital-light model in May. In June, Fuzhou Financing Guarantee was established and later obtained the license to provide financing guarantee services. On December 14, 2018, the ADSs commenced trading on Nasdaq Global Market under the symbol “QFIN.”

HISTORY AND CORPORATE STRUCTURE

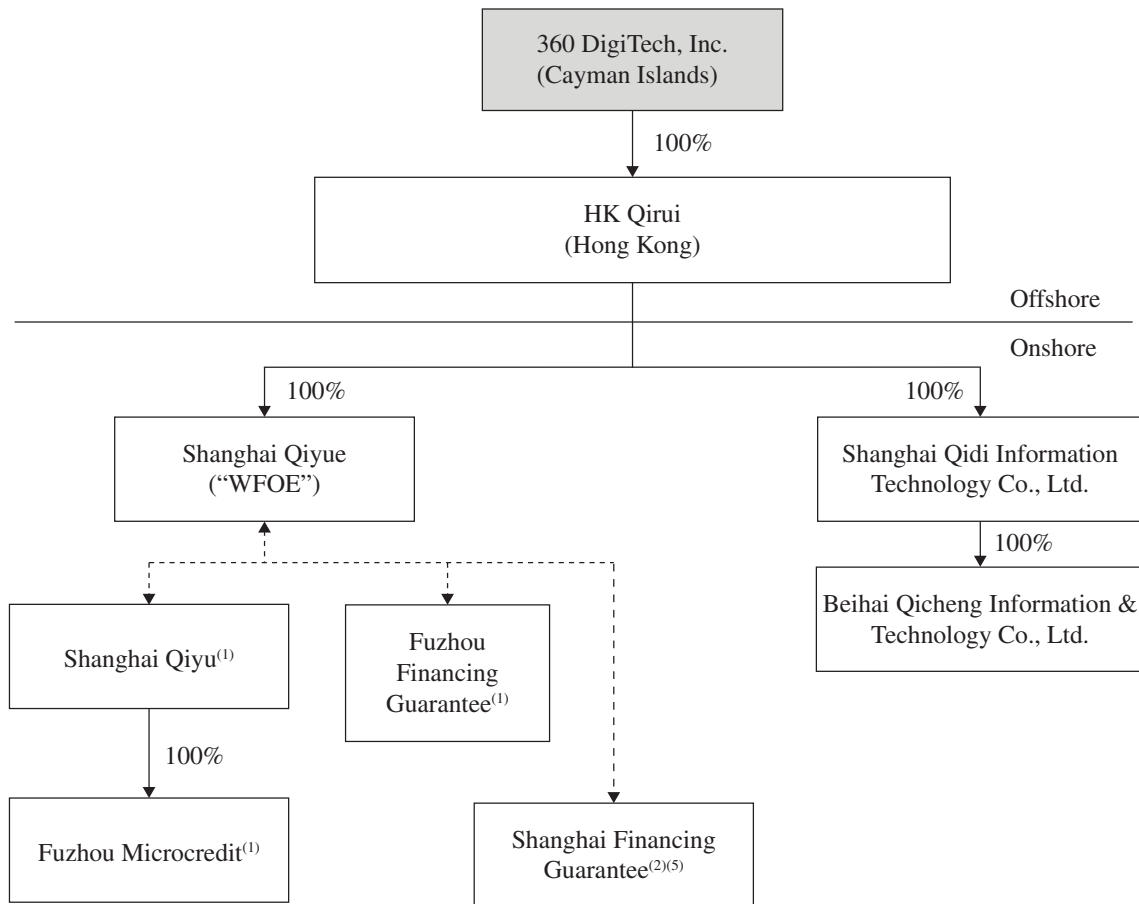
Date	Event
2019	<p>In January, Shanghai Financing Guarantee obtained the license to conduct financing guarantee business.</p> <p>In May, we won the Achievement in Credit Risk Management Award given by the Asian Banker.</p> <p>We launched the Intelligence Credit Engine (ICE) in August, an open platform that offers financial institution partners intelligent marketing services.</p> <p>In September, we were approved by the PBOC to access the Credit Reference Center.</p> <p>We were the first group to join the anti-fraud alert platform led by the MPS in October.</p>
2020	<p>In June, we were among the first group to pass the filing with National Internet Finance Association of China for mobile finance app.</p> <p>We changed our name to 360 DigiTech in August, to better reflect our focus on technology empowerment.</p> <p>On November 19, 2020 the ADSs were transferred from the Nasdaq Global Market to begin trading on the Nasdaq Global Select Market.</p> <p>We launched our innovative “embedded finance” model.</p>
2021	<p>In February, we obtained the ISO/IEC 27001:2013 certificate in recognition of our information security management system.</p> <p>In July, we were awarded “China’s Best Credit-Tech Services”, “China’s Best Implementation in Anti-Fraud Technology of the Year” and “China’s Best Technological Implementation in Risk Data and Analysis of the Year” at the China Country Awards 2021 by The Asian Banker.</p> <p>In November, we were awarded “New Champions 2021 – Excellence in agile business governance” by the World Economic Forum, being Asia’s only award-winning corporation at the New Champion Awards 2021.</p> <p>Our total cumulative loan facilitation volume reached RMB930 billion. We have accumulated 119 financial institutional partners and our total cumulative registered users reached 188 million by December 2021.</p>
2022	<p>In January, we obtained the ISO/IEC 27701:2019 certificate in recognition of our privacy information management system.</p>

HISTORY AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

Our corporate structure

For illustrative purposes, we summarize our corporate group structure in the diagram below, including our principal subsidiaries and consolidated affiliated entities as at September 30, 2022:



————> Equity Interest

← - - - → Contractual arrangements

Notes:

- (1) Each of Shanghai Qiyu and Fuzhou Financing Guarantee is wholly owned by Shanghai Qibutianxia. Shanghai Qibutianxia is owned as to 65.74% by Tianjin Qixinfukong Technology Co., Ltd. (天津奇信富控科技有限公司) (“**Tianjin Qixinfukong**”), which is in turn owned as to 84.95% by Tianjin Qixinzhi Cheng Technology Co., Ltd. (天津奇信志成科技有限公司), a company of which Mr. Zhou is an executive director and the largest shareholder with 17.38% equity interest (“**Tianjin Qixinzhi Cheng**”). For further details of the respective shareholdings of Shanghai Qibutianxia and Tianjin Qixinfukong, please refer to footnotes (3) and (4) below.
- (2) Shanghai Financing Guarantee is owned as to 80% and 20% by Beijing Zhongxin Baoxin Technology Co., Ltd. and Beijing Qicaitianxia Technology Co., Ltd., respectively, which are in turn wholly owned by Shanghai Qibutianxia. For details of the shareholding of Shanghai Qibutianxia, please refer to footnote (3) below.

HISTORY AND CORPORATE STRUCTURE

- (3) Shanghai Qibutianxia is owned as to 65.74% by Tianjin Qixinfukong and 7.26% by Beijing Qiruitiancheng Investment Centre (Limited Partnership) (北京奇睿天成投資中心(有限合夥)), a company indirectly controlled by Tianjin Qixinfukong. For details of the shareholding of Tianjin Qixinfukong, please refer to footnote 4 below. In addition, Shanghai Qibutianxia is owned as to 5.97% by Shanghai Binjie Enterprise Management Service Partnership (Limited Partnership) (上海玢傑企業管理服務合夥企業(有限合夥)), 3.13% by Gongqingcheng Zhongcai Qihu Financial Holding Internet Industry Investment Centre (Limited Partnership) (共青城中財奇虎金控互聯網產業投資中心(有限合夥)), 2.87% by Gongqingcheng Zhongcai Qihu Financial Holding Phase II Internet Industry Investment Centre (Limited Partnership) (共青城中財奇虎金控二期互聯網產業投資中心(有限合夥)), 2.25% by Gongqingcheng Zhongcai Qihu Financial Holding Phase III Internet Industry Investment Centre (Limited Partnership) (共青城中財奇虎金控三期互聯網產業投資中心(有限合夥)), 1.15% by Beijing Hexiechengzhang Investment Centre (Limited Partnership) (北京和諧成長投資中心(有限合夥)), 1.12% by Suzhou Wuyuetianxia Venture Capital Centre (Limited Partnership) (蘇州五嶽天下創業投資中心(有限合夥)), 1.12% by Beijing Ruifeng Investment Management Co., Ltd. (北京瑞豐投資管理有限公司) and 1.01% by Gongqingcheng Hening Investment Management Partnership (Limited Partnership) (共青城和寧投資管理合夥企業(有限合夥)). The remaining equity interests in Shanghai Qibutianxia are owned by 16 other shareholders each holding less than 1% of the total equity interests of Shanghai Qibutianxia, all of which are independent third parties.
- (4) Tianjin Qixinfukong is owned as to 84.95% by Tianjin Qixinzhiheng, 7.13% by Mr. Zhou, 3.00% by Shanghai Guanying Enterprise Management Partnership (Limited Partnership) (上海冠鷹企業管理合夥企業(有限合夥)), a company indirectly controlled by Mr. Zhou’s spouse, 1.90% by Mr. Qi Xiangdong, an independent third party, 1.66% by Tianjin Juxin Equity Investment Partnership (Limited Partnership) (天津聚信股權投資合夥企業(有限合夥)) and 1.35% by Tianjin Tianxin Equity Investment Partnership (Limited Partnership) (天津天信股權投資合夥企業(有限合夥)), both of which are independent third parties.
- (5) In order to streamline and consolidate the operation of the financing guarantee business of the Group, the Group plans to conduct all financing guarantee business of the Group through Fuzhou Financing Guarantee, and phase out Shanghai Financing Guarantee. For further details, see the section headed “Contractual Arrangements” in this document.

HISTORY AND CORPORATE STRUCTURE

Significant Subsidiaries and Operating Entities

As of September 30, 2022, we conducted our business operations across our eight Significant Subsidiaries. Their principal business activities and dates of establishment are shown below:

Name of company	Principal business activities	Date and jurisdiction of establishment	Share capital/ registered capital
HK Qirui International Technology Limited	Investment holding	June 14, 2018, Hong Kong	USD100,000
Shanghai Qiyue Information & Technology Co., Ltd.	Investment holding	August 7, 2018, PRC	USD5,000,000
Shanghai Qidi Information Technology Co., Ltd.	Investment holding	June 27, 2019, PRC	USD1,000,000
Beihai Qicheng Information & Technology Co., Ltd.	Financial Technology	August 6, 2019, PRC	RMB10,000,000
Shanghai Qiyu Information & Technology Co., Ltd.	Credit-Tech	July 25, 2016, PRC	RMB4,303,039,074
Fuzhou 360 Online Microcredit Co., Ltd.	Micro-lending	March 30, 2017, PRC	RMB5,000,000,000
Fuzhou 360 Financing Guarantee Co., Ltd.	Financing Guarantee Services	June 29, 2018, PRC	RMB4,600,000,000
Shanghai 360 Financing Guarantee Co., Ltd. (now known as Shanghai Qiyaoxin Technology Co., Ltd.)*	Financing Guarantee Services*	May 20, 2019, PRC	RMB300,000,000

Note:

- * The Group will streamline and consolidate the operation of the financing guarantee business of the Group, and certain changes have been made to this entity. For further details, please refer to the section headed “Contractual Arrangements – Consolidation of Financing Guarantee Business”.

HISTORY AND CORPORATE STRUCTURE

Major Acquisition and Disposal

We have not conducted any major acquisition or disposal during the Track Record Period.

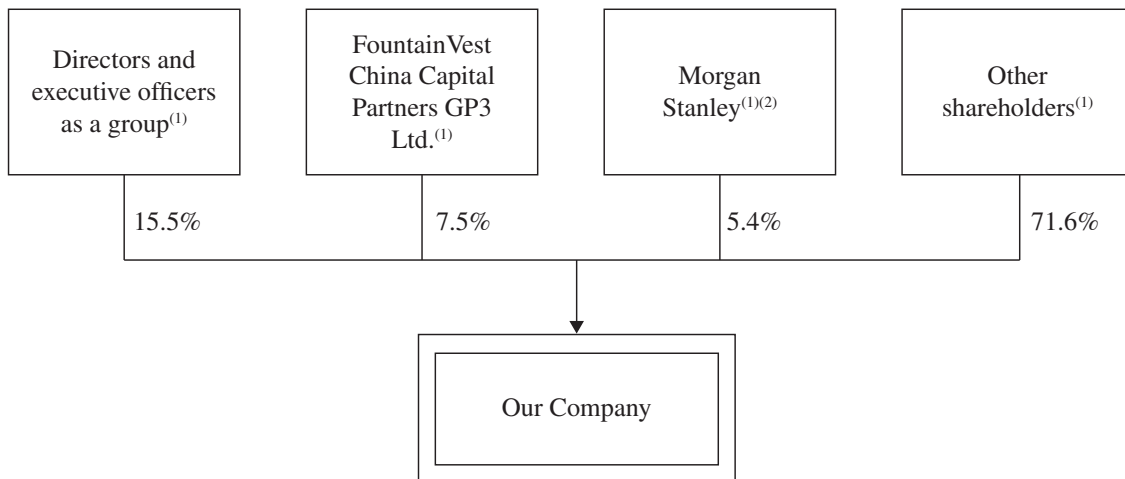
Listing on Nasdaq

On December 14, 2018, we listed the ADSs on the Nasdaq Global Market under the symbol “QFIN.” On November 19, 2020, the ADSs were transferred from the Nasdaq Global Market to, and began trading on, the Nasdaq Global Select Market. Since the date of our listing on Nasdaq and up to the Latest Practicable Date, our Directors confirm that we had no instances of non-compliance with the rules of Nasdaq in any material respects and to the best knowledge of our Directors having made all reasonable enquiries, there is no matter that should be brought to [REDACTED] attention in relation to our compliance record on Nasdaq.

We believe that the [REDACTED] on the Hong Kong Stock Exchange will present us with an opportunity to further expand our [REDACTED] base and broaden our access to capital markets.

Shareholding Structure

The following diagram illustrates our shareholding structure (excluding 2,910,315 Shares issued and reserved for future issuance upon the exercising or vesting of awards granted under our Share Incentive Plans) as of September 30, 2022:

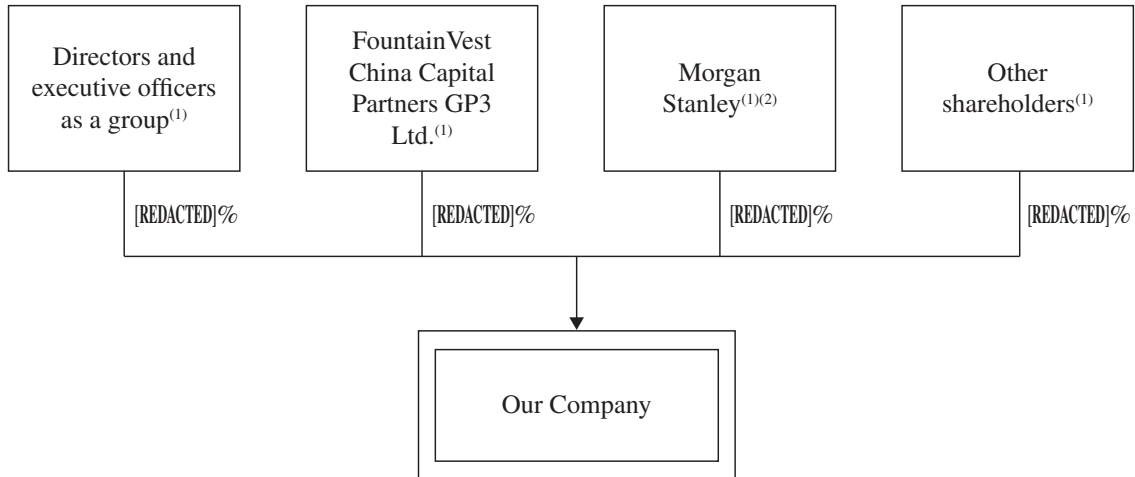


Notes:

- (1) See “Major Shareholders” for further details on the voting rights and the beneficial ownership of our Directors and executive officers as a group, FountainVest China Capital Partners GP3 Ltd., Morgan Stanley and other shareholders.
- (2) Based on a Schedule 13G filed by Morgan Stanley as a parent holding company jointly with Morgan Stanley Investment Management Company and Morgan Stanley Investment Funds, on February 11, 2022.

HISTORY AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding structure immediately upon the completion of the [REDACTED] (excluding the Shares issued and reserved for future [REDACTED] upon the exercising or vesting of awards granted under the Share Incentive Plans, and assuming all major shareholders' shareholdings remain unchanged as of the Latest Practicable Date, the [REDACTED] is not exercised, and no additional Shares are [REDACTED] under the Share Incentive Plans):



Notes:

- (1) Please refer to the details contained in Note (1) above.
- (2) Please refer to the details contained in Note (2) above.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

Our Consolidated Affiliated Entities were established under the laws of the PRC. As described below, business in certain areas of the industry in which we currently operate are subject to restrictions under current PRC laws and regulations. It was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries subject to foreign investment restrictions in the PRC, we would gain effective control over, and receive 100% of all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements involving Shanghai Qiyu, Fuzhou Microcredit, Fuzhou Financing Guarantee and Shanghai Financing Guarantee (together, the “**Principal VIEs**”).

In order to streamline and consolidate the operation of the financing guarantee business of the Group, the Group plans to conduct all financing guarantee business of the Group through Fuzhou Financing Guarantee going forward and phase out Shanghai Financing Guarantee. For further details, please refer to the section headed “– Consolidation of Financing Guarantee Business” below.

A summary of the relevant businesses (“**Relevant Businesses**”) that are subject to foreign investment restrictions are set out as follows:

Categories	Our Business
Restricted Business – Value-added telecommunications services business	The operation of our online consumer Credit-Tech business involves internet information provision services, which falls within the scope of value-added telecommunications services business under the Telecommunications Regulations. According to the Negative List (2021), foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business. Shanghai Qiyu holds an ICP License issued by the competent authority for the provision of such internet information services.
Micro-Lending business	The operation of our online micro-lending business through Fuzhou Microcredit falls within the scope of the Interim Administrative Measures on Micro-lending Companies of Fujian (“ Fujian Micro-Lending Measures ”), promulgated by the General Office of the Fujian Provincial People’s Government, which imposes certain requirements on shareholders of entities engaged in the micro-lending businesses.

CONTRACTUAL ARRANGEMENTS

Categories	Our Business
Financing guarantee business	The operation of our financing guarantee business through Fuzhou Financing Guarantee and Shanghai Financing Guarantee falls within the scope of Regulations on the Supervision and Administration of Financing Guarantee Companies (“ Financing Guarantee Regulation ”), promulgated by the State Council of the PRC.

For further details of the limitations on foreign ownership in PRC companies conducting businesses involving value-added telecommunications services, micro-lending business and financing guarantee business under the applicable PRC laws and regulations, see “Regulatory Overview – Regulations on Foreign Investment Restrictions,” “Regulatory Overview – Regulations on Online Finance Services Industry – Regulation on Micro-Lending Business” and “Regulatory Overview – Regulation on Online Finance Services Industry – Regulations on Financing Guarantee.”

As a result of the foregoing, a series of Contractual Arrangements have been entered into by Shanghai Qiyu, Fuzhou Financing Guarantee, Shanghai Financing Guarantee and their Registered Shareholders, through which we have obtained control over the operations of, and enjoy all economic benefits of the VIEs. The Contractual Arrangements for Shanghai Qiyu were initially entered into in September 2018, Fuzhou Financing Guarantee in September 2018 (as amended in April 2019) and Shanghai Financing Guarantee in May 2019. The Contractual Arrangements currently in effect were entered into on June 1, 2022, in replacement of the previous contractual arrangements, whereby our WFOE has acquired effective control over the Consolidated Affiliated Entities, and has become entitled to all the economic benefits derived from their respective operations.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOE and our Consolidated Affiliated Entities; (ii) by entering into the Exclusive Business Cooperation Agreements with our WFOE, which are our Company’s subsidiary incorporated in the PRC, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies in the same or similar industries to those in which we operate use similar arrangements to accomplish the same purpose. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential for conflict with relevant PRC laws and regulations to the maximum extent.

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For the three financial years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, the revenue contributed by our Consolidated Affiliated Entities accounted for 93%, 97%, 92% and 92% of our total net revenue, respectively. The remaining revenue was generated by the other subsidiaries of our Group for providing ancillary services such as risk management SaaS and pre-facilitation technology solutions for our platform services.

Reasons for Adoption of Contractual Arrangements for the Value-added Telecommunication Services Business

Pursuant to the Negative List (2021), which came into effect on January 1, 2022, provision of value-added telecommunications services falls within the ‘restricted’ category. As such, the ultimate shareholding percentage of a foreign investor in companies engaged in value-added telecommunications services (except for e-commerce, domestic multi-party communications, storage-forwarding and call centers) shall not exceed 50%. Moreover, pursuant to the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法), a provider of ‘operational internet information services’ (namely services involving the provision of information or website-design services through the internet to internet-users for a fee) is required to obtain an ICP license. See “Regulatory Overview – Regulations on Foreign Investment Restrictions,” for details of limitations on foreign ownership in PRC companies conducting value-added telecommunications services.

Since our value-added telecommunication services involve the operation of internet information services, and online data processing and transaction processing service, which are a sub-categories of valued-added telecommunications business, for which an value-added telecommunication services license is required, our value-added telecommunication services are subject to foreign ownership restrictions. Therefore, our internet information services are conducted by, and value-added telecommunication license is held by, Shanghai Qiyu.

We operate the online consumer Credit-Tech business involving internet information service under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

- (i) on March 29, 2022, the State Council promulgated the Decision of the State Council on Amending or Abolishing Certain Administrative Regulations (the “**Decision**”), which came into effect on May 1, 2022. According to the Decision, the requirement of good track record and operational experience of the primary foreign investor in a foreign-invested value-added telecommunications enterprise, as stipulated in the Administrative Regulations on Foreign-Invested Telecommunications Enterprises, was canceled. On May 26, 2022, our PRC Legal Adviser consulted with MIIT in relation to the Decision, and was informed that currently an application by a foreign-invested enterprise from such online consumer finance service field to hold an EDI or ICP License is still strictly controlled and would not be approved in practice, and there is no approved precedent in such consumer Credit-Tech business.

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The abovementioned MIIT consultation was conducted with an officer of the relevant department of MIIT and our PRC Legal Adviser is of the view that such department is a competent authority and the officer consulted is competent to provide the above confirmations. As of the Latest Practicable Date, we have not received any inquiry or notice from the competent authorities regarding the validity of our ICP license or our Contractual Arrangements as a whole. In addition, as advised by our PRC Legal Adviser, as the Decision only became effective on May 1, 2022 and no detailed guidance or implementation measures have been issued, there remain uncertainties with respect to its future impact on us, including any specific requirements that we may need to satisfy. We will closely monitor any future development relating to the Decision and will take all necessary actions to comply with applicable laws, regulations and specific requirements or guidance, including reorganizing our corporate structure, if required in the future. See "Risk Factors – Risks Related to Our Business and Industry"; and

- (ii) based on the abovementioned MIIT consultation, our PRC Legal Adviser is of the view that in the case of our Company, currently we are practically unable to obtain ICP license through any Sino-foreign equity joint venture or wholly-owned foreign investment entity.

Reasons for Adoption of Contractual Arrangements for Micro-Lending Business

In May 2008, Guidance on the Pilot Establishment of Micro-Lending Companies was jointly promulgated by the CBRC and the PBOC, authorizing provincial governments to approve the establishment of micro-lending companies on a test basis. The establishment of a micro-lending company is subject to the approval of the competent government authority at the provincial level.

Based on this guidance, many provincial governments, including that of Fujian Province, promulgated local implementing rules on the administration of micro-lending companies. In March 2012, Fujian Provincial People's Government issued the Fujian Micro-Lending Measures, imposing the management duties upon the relevant regulatory authorities and specifies more detailed requirements on the micro-lending companies.

Fuzhou Microcredit has obtained the approval to operate micro-lending businesses as issued by the local government authority, which allows Fuzhou Microcredit to conduct micro-lending businesses through the internet.

While the Negative List (2021) does not classify the micro-lending businesses as "restricted" or "prohibited," the Fujian Micro-Lending Measures promulgated by the General Office of the Fujian Provincial People's Government imposed certain requirements on shareholders of entities engaged in the businesses of micro lending.

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We operate the micro-lending business under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

- (i) our PRC Legal Adviser conducted consultations (the “**FFSA Consultations**”) with an officer of the Fujian Provincial Local Financial Supervision Administration (“**Fujian Financial Supervision Administration**”) in August 2020 and March 2021, respectively. As advised by our PRC Legal Adviser, Fujian Financial Supervision Administration is the competent authority to determine applications of micro-lending businesses in the Fujian province and the officer consulted is competent to provide relevant confirmations. The officer of the Fujian Financial Supervision Administration confirmed that given that relevant PRC regulatory authorities are formulating (though have not yet promulgated) the “Regulations on the Organization of Non-deposit Lending” and the “Interim Measures for the Administration of Online Micro-Lending Business,” the approval of foreign-invested companies engaged in micro-lending business has been suspended. The officer of the Fujian Financial Supervision Administration also confirmed that there is only one foreign-held entity (namely, an entity that is held directly or indirectly by foreign companies incorporated outside of the PRC) engaged in micro-lending business in Fujian (as a result of article 12 of the Fujian Micro-Lending Measures which provides for launching the pilot project to establish one foreign-owned micro-lending company in Fuzhou), and that the Fujian Financial Supervision Administration will currently not consider granting an approval for any additional foreign-held entities engaged in the micro-lending business;
- (ii) on July 12, 2022, our PRC Legal Adviser conducted another verbal FFSA Consultation with a competent officer of Fujian Financial Supervision Administration and was informed that there is no change to the above regulatory policies and practices since the previous FFSA Consultations, and therefore, the relevant confirmations obtained from the previous FFSA Consultations remained valid; and
- (iii) based on the FFSA Consultations, our PRC Legal Adviser is of the view that Fujian Financial Supervision Administration would not approve applications from a foreign-held entity, including HK Qirui, to engage in the micro-lending business in Fujian province in the foreseeable future.

Therefore, to maintain Fuzhou Microcredit’s operation of its micro-lending business, Fuzhou Microcredit must remain within the current VIE structure and the shareholding of which should not be transferred to foreign companies (including wholly foreign-owned enterprises in China).

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Reasons for Adoption of Contractual Arrangements for Financing Guarantee

While the Negative List (2021) does not classify the financing guarantee businesses as “restricted” or “prohibited,” the Financing Guarantee Regulation promulgated by the State Council of the PRC imposed certain requirements on shareholders of entities engaged in the businesses of financing guarantees.

In March 2010, seven government authorities including the CBRC, the MOFCOM and the MOF promulgated the Interim Administrative Measures for Financing Guarantee Companies which requires an entity or individual to obtain a prior approval from the relevant government authority before engaging in the financing guarantee business.

Fuzhou Financing Guarantee, through which we provide the guarantee to borrowers for the loans provided by our financial institution partners, has obtained the financing guarantee certificate granted by relevant government authority to conduct financing guarantee business in June 2018.

Shanghai Financing Guarantee, through which we provide the guarantee to borrowers for the loans provided by our financial institution partners, obtained the financing guarantee certificate granted by competent government authorities to conduct financing guarantee business in January 2019.

Consolidation of the Financing Guarantee Business

In order to streamline and consolidate the operation of the financing guarantee business of the Group, the Group plans to conduct all financing guarantee business of the Group through Fuzhou Financing Guarantee, and phase out Shanghai Financing Guarantee. Shanghai Financing Guarantee has applied, and permission has been granted by the relevant PRC authority, to have its financing guarantee certificate cancelled, and such certificate has been returned to the relevant PRC authority for cancellation. Upon such cancellation, Shanghai Financing Guarantee shall be permitted to continue to carry on its pre-existing financial guarantee contracts and obligations, but will no longer enter into new financing guarantee business arrangements. The Group expects to complete the phase-out of Shanghai Financing Guarantee in the next two to three years based on the contractual terms of the pre-existing financing guarantee agreements, and Shanghai Financing Guarantee will file a formal application for de-registration to the relevant PRC authorities after all of its pre-existing contractual obligations have been performed or lapsed, as applicable. Going forward, the Group will conduct all of its financing guarantee business through Fuzhou Financing Guarantee.

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We operate the financing guarantee business under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

- (i) our PRC Legal Adviser conducted consultations with an officer of Fujian Financial Supervision Administration in August 2020 and March 2021, or the FFSA Consultations. As advised by our PRC Legal Adviser, Fujian Financial Supervision Administration is the competent authority to determine applications of financing guarantee businesses in the Fujian province and the officer consulted is competent to provide relevant confirmations. The officer of the Fujian Financial Supervision Administration confirmed that (i) given the current strict regulatory attitude of the SAFE towards the outflow of foreign capital from China, the regulatory authorities in China are more cautious about approving applications for financing guarantee companies with foreign investors and it is very difficult to approve a financing guarantee company with foreign investor; and (ii) there is currently no foreign-held entity engaged in financing guarantee business in Fujian province; and (iii) the policies of the Fujian Financial Supervision Administration do not allow it to, in the foreseeable future, approve an application for financing guarantee companies who are foreign-held entities. On July 12, 2022, our PRC Legal Adviser conducted another verbal FFSA Consultation with a competent officer of Fujian Financial Supervision Administration and was informed that there is no change to the above regulatory policies and practices since the previous FFSA Consultations, and therefore, the relevant confirmations obtained from the previous FFSA Consultations remained valid;

- (ii) our PRC Legal Adviser conducted consultations (the “**SPFSO Consultations**”) with an officer of the Shanghai Putuo District Financial Services Office (“**Shanghai Putuo Financial Services Office**”) in August 2020 and March 2021. As advised by our PRC Legal Adviser, the Shanghai Putuo Financial Services Office is the competent authority to pre-screen the applications of financing guarantee businesses in Putuo district of Shanghai and the officer consulted is competent to provide relevant confirmations. The officer of the Shanghai Putuo Financial Services Office confirmed that: (i) the Shanghai Putuo Financial Services Office generally conducts preliminary review for approvals of financing guarantee qualifications, and the Shanghai Municipal Financial Regulatory Bureau (“**Shanghai Financial Regulatory Bureau**”) will conduct further review after the preliminary review is passed; (ii) the approval of any applications from a foreign-held entity to engage in the financing guarantee business will be very difficult; (iii) there is currently no foreign-held entity engaging in financing guarantee business in Putuo district of Shanghai; (iv) according to existing PRC laws and regulations, HK Qirui does not meet the approval conditions; and (v) even if HK Qirui meets the approval conditions, in view of the highly restrictive policies in relation to companies engaging in financing guarantee business, no approval of any applications from HK Qirui to engage in the financing guarantee business would be granted in practice. On July 12, 2022, our PRC Legal Adviser conducted another verbal SPFSO

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Consultation with a competent officer of Shanghai Putuo Financial Services Office and was informed that there is no change to the above regulatory policies and practices since the previous SPFSO Consultations, and therefore, the relevant confirmations obtained from the previous SPFSO Consultations remained valid;

- (iii) furthermore, our PRC Legal Adviser conducted a verbal consultation (the “**SFRB Consultation**”) with an officer of Shanghai Financial Regulatory Bureau in July 2022. The officer of Shanghai Financial Regulatory Bureau confirmed that (i) its department is responsible for the financing guarantee companies’ supervision; (ii) the Shanghai Putuo Financial Services Office conducts preliminary review for approvals of financing guarantee qualifications; (iii) if the Shanghai Putuo Financial Services Office does not approve the application in its preliminary review, the Shanghai Financial Regulatory Bureau will not overturn the conclusion of the Shanghai Putuo Financial Services Office. As advised by our PRC Legal Adviser, the Shanghai Financial Regulatory Bureau is the competent authority to determine applications of financing guarantee businesses in Shanghai and officers from the aforesaid department are compete to provide relevant confirmations;

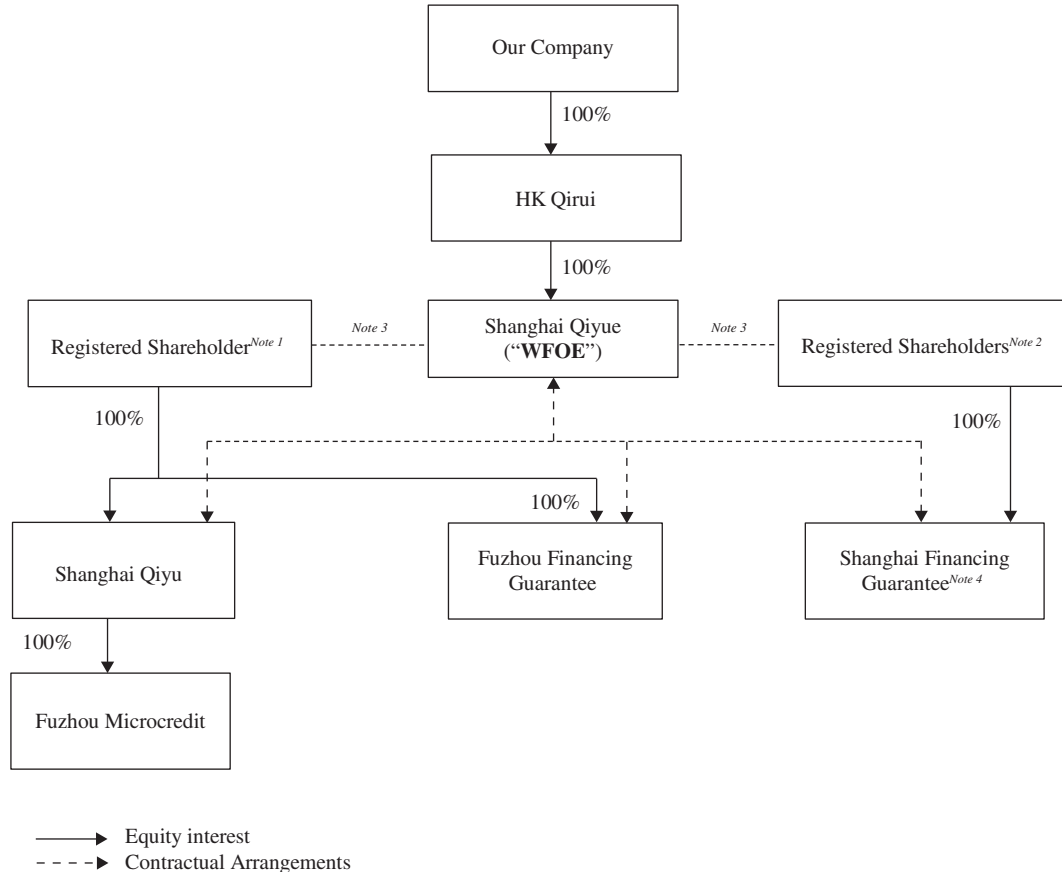
- (iv) based on the FFSA Consultations, our PRC Legal Adviser is of the view that Fujian Financial Supervision Administration would not approve applications from a foreign-held entity, including HK Qirui, to engage in the financing guarantee business in Fujian province in the foreseeable future. Based on the SPFSO Consultations and SFRB Consultation, our PRC Legal Adviser is of the view that Shanghai Putuo Financial Services Office would not approve applications from HK Qirui to engage in the financing guarantee business in the foreseeable future. In addition, besides HK Qirui and its subsidiaries, the Company does not have any other appropriate entities in the Group to engage in the financing guarantee business and become the shareholder of Fuzhou Financing Guarantee or Shanghai Financing Guarantee.

Therefore, to maintain the operation of the financial guarantee businesses of Fuzhou Financing Guarantee and Shanghai Financing Guarantee, they must remain within the current VIE structure and the shareholding of which should not be transferred to foreign companies (including wholly foreign-owned enterprises in China).

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The diagram below illustrates the relationships among the entities under the Contractual Arrangements:



Notes:

- (1) Shanghai Qibutianxia owns all of the equity interest in both Shanghai Qiyu and Fuzhou Financing Guarantee. Shanghai Qibutianxia is owned as to 65.74% by Tianjin Qixinfukong Technology Co., Ltd. (天津奇信富控科技有限公司), which is in turn owned as to 84.95% by Tianjin Qixinzhicheng Technology Co., Ltd. (天津奇信志成科技有限公司), a company of which Mr. Hongyi Zhou is the largest shareholder with 17.38% equity interest.
- (2) Beijing Zhongxin Baoxin Technology Co., Ltd. (北京中鑫保信科技有限公司) (“**Beijing Zhongxin**”) and Beijing Qicaitianxia Technology Co., Ltd. (北京奇才天下科技有限公司) (“**Beijing Qicaitianxia**”) hold 80% and 20% equity interests in Shanghai Financing Guarantee, respectively. Both Beijing Zhongxin and Beijing Qicaitianxia are wholly-owned by Shanghai Qibutianxia.
- (3) Shanghai Qibutianxia executed exclusive option agreements, equity interest pledge agreements and voting proxy agreements in favor of our WFOE in respect of Shanghai Qiyu and Fuzhou Financing Guarantee. Beijing Zhongxin and Beijing Qicaitianxia executed documents with substantially the same terms as the said documents in favor of our WFOE in respect of Shanghai Financing Guarantee. See the section headed “– Summary of the Material Terms of the Contractual Arrangements” below for details.
- (4) In order to streamline and consolidate the operation of the financing guarantee business of the Group, the Group plans to conduct all financing guarantee business of the Group through Fuzhou Financing Guarantee, and phase out Shanghai Financing Guarantee. For further details, please refer to the section headed “– Consolidation of the Financing Guarantee Business” above.

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Circumstances under which we will unwind the Contractual Arrangements

We will unwind and terminate the Contractual Arrangements wholly or partially as soon as practicable in respect of the operation of the Relevant Businesses to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations in the event that PRC regulatory restrictions on foreign ownership of Relevant Business cease to exist or allow the relevant business to be held by Sino-foreign entity joint ventures or wholly-owned foreign investment entities.

SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Exclusive Business Cooperation Agreements

Shanghai Qiyu and our WFOE entered into an exclusive business cooperation agreement on June 1, 2022 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Shanghai Qiyu agreed to engage our WFOE as its exclusive service provider of, among other things, consulting and technical services required by Shanghai Qiyu's business, which include, but are not limited to:

- (i) research and development of the technology necessary to Shanghai Qiyu's businesses, including to develop, design and establish the database, user interface and other related technologies for Shanghai Qiyu's business information and authorize Shanghai Qiyu to use the same;
- (ii) provision of technical application and implementation in relation to Shanghai Qiyu's business, including but not limited the overall design, installation, testing and trial run of the system;
- (iii) day-to-day maintenance, monitoring, testing and debugging of the network system required by Shanghai Qiyu's businesses, including to input user data to the database, to provide business information to Shanghai Qiyu from time to time, update the database and user interface regularly and provide other related technical services;
- (iv) provision of consultation services for the procurement of equipment and software and hardware systems required by Shanghai Qiyu's business, including but not limited to providing consulting advice in relation to the choice, system installation and testing of all kinds of software tools, applications and technical platforms, and the procurement, models and performance of related hardware facilities and equipment;

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- (v) provision of professional training and technical support for relevant personnel of Shanghai Qiyu, including but not limited to providing appropriate training (in relation to customer services, technology and other related aspects), introducing knowledge and experience regarding the installation and operation of relevant systems and equipment, assisting Shanghai Qiyu to resolve issues in the installation and operation of systems and equipment that arise from time to time, providing suggestions and advice to Shanghai Qiyu in relation to editing platform and software, and assisting Shanghai Qiyu to collect and compile all kinds of information and contents;
- (vi) provision of technical consulting and solutions for technical questions raised by Shanghai Qiyu in relation to its business operation, network facilities, technical products and software;
- (vii) provision of personnel support at the request of Shanghai Qiyu, including but not limited to lending or deploying relevant personnel;
- (viii) risk assessment and analysis on shareholders of Shanghai Qiyu at the request of Shanghai Qiyu; and
- (ix) other relevant services as required in accordance with the business needs of the parties as may be agreed by supplemental agreements.

Pursuant to the Exclusive Business Cooperation Agreement, in consideration of the services provided by our WFOE, Shanghai Qiyu shall pay services fees to our WFOE. The service fees, without contravening PRC laws, are equal to the entirety of the total consolidated net profit of the Shanghai Qiyu and its subsidiaries, after the deduction of any accumulated deficit in respect of the preceding financial year(s) (if applicable), operating costs, expenses, taxes and other payments required by the relevant laws and regulations to be reserved or withheld. Notwithstanding the foregoing, our WFOE may adjust the scope and amount of services fees in its discretion taking into account factors including but not limited to (i) the management and technical difficulty and the complexity of the management, technical consulting and other services provided by our WFOE; (ii) the time required by relevant personnel of our WFOE in providing such management and technical consulting and other services; (iii) the exact content and business value of the management, technical consulting and other services; (iv) the exact content and business value of intellectual property license and lease provided by our WFOE; and (v) the market price of services of similar types. Unless otherwise agreed upon, the service fee shall be payable by Shanghai Qiyu within five working days after receiving the relevant payment notice sent out by our WFOE.

In the event that the above payment would lead to Shanghai Qiyu experiencing any difficulties in its operations, our WFOE shall have the right to delay the payment and/or adjust the amount or payment method of service fee (including in accordance with PRC tax law and practice) in writing, and Shanghai Qiyu shall be notified in advance by our WFOE in writing and accept such requests of our WFOE.

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In addition, absent the prior written consent of our WFOE, during the term of the Exclusive Business Cooperation Agreement, with respect to the services subject to the Exclusive Business Cooperation Agreement and other matters, Shanghai Qiyu and its subsidiaries shall not accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the exclusive business cooperation agreement with any third party. Our WFOE may appoint other parties, who may enter into certain agreements with Shanghai Qiyu, to provide Shanghai Qiyu with the services under the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement also provides that our WFOE will have the exclusive ownership of all the intellectual property rights created as a result of the performance of the Exclusive Business Cooperation Agreement to the extent permitted by applicable PRC laws. Our Directors consider that the above arrangements will ensure the economic benefits generated from the operations of the consolidated affiliated entities will flow to our WFOE and hence, our Group as a whole.

The Exclusive Business Cooperation Agreement has an indefinite term commencing from June 1, 2022, being the date of the exclusive business cooperation agreement. The Exclusive Business Cooperation Agreement may be terminated by our WFOE (i) when Shanghai Qiyu becomes insolvent, bankrupt or subject to liquidation or dissolution procedures; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Shanghai Qiyu to our WFOE or its designated person pursuant to the exclusive option agreement entered into between our WFOE, Shanghai Qiyu and Shanghai Qibutianxia; (iii) when it is legally permissible for our WFOE to hold equity interests directly or indirectly in Shanghai Qiyu and our WFOE or its designated person is registered to be the shareholder of Shanghai Qiyu; (iv) when relevant government authorities refuse to renew the expired operating period of Shanghai Qiyu or our WFOE; (v) by giving Shanghai Qiyu a 30 days’ prior written notice of termination; or (vi) Shanghai Qiyu breaches the Exclusive Business Cooperation Agreement. Shanghai Qiyu is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with our WFOE.

Fuzhou Financing Guarantee and Shanghai Financing Guarantee have each entered into an exclusive business cooperation agreement with our WFOE on June 1, 2022, in terms that are substantially similar to the Exclusive Business Cooperation Agreement described above.

Exclusive Option Agreements

Our WFOE, Shanghai Qiyu and Shanghai Qibutianxia, the sole Registered Shareholder of Shanghai Qiyu, entered into an exclusive option agreement on June 1, 2022 (the “**Exclusive Option Agreement**”), pursuant to which Shanghai Qibutianxia will irrevocably grant our WFOE an exclusive option to purchase or designate one or more persons to purchase, all or part of its equity interests in Shanghai Qiyu. Further, Shanghai Qiyu will irrevocably grant our WFOE an exclusive option to purchase all or part of its assets, subject to applicable PRC laws. Our WFOE and or its designated person may exercise such options at the lowest price permitted under applicable PRC laws.

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Pursuant to the Exclusive Option Agreement, Shanghai Qibutianxia and Shanghai Qiyu have undertaken, amongst other things, that:

- (i) without our WFOE's prior written consent, they shall not in any manner supplement, change or amend the constitutional documents of Shanghai Qiyu, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- (ii) they shall maintain Shanghai Qiyu's corporate existence in accordance with good financial and business standards and practices, prudently and effectively operate its business and handle its affairs, procure Shanghai Qiyu to perform its obligations under the Exclusive Business Cooperation Agreement, and procure Shanghai Qiyu to obtain and/or maintain all necessary licenses and permits;
- (iii) without the prior written consent of our WFOE, they shall not at any time following the signing of the Exclusive Option Agreement, sell, transfer, pledge or dispose of in any manner any assets of Shanghai Qiyu or interest in the business or revenues of Shanghai Qiyu, or allow the encumbrance thereon of any security interest;
- (iv) unless otherwise mandatorily required by PRC laws, Shanghai Qiyu shall not be dissolved or liquidated without prior written consent by our WFOE;
- (v) without the prior written consent of our WFOE, Shanghai Qiyu shall not incur, inherit, guarantee or assume any debt, except for (i) debts incurred in the ordinary course of business other than payables incurred by a loan and (ii) debts that have been disclosed to and consented to by our WFOE in writing;
- (vi) they shall operate all of Shanghai Qiyu's businesses during the ordinary course of business to maintain its asset value and refrain from any action/omission that may adversely affect Shanghai Qiyu's operating status and asset value;
- (vii) without the prior written consent of our WFOE, they shall not cause Shanghai Qiyu to execute any material contract, except the contracts executed in the ordinary course of business or with our WFOE, its direct or indirect offshore parent companies or their direct or indirect subsidiaries;
- (viii) without the prior written consent of our WFOE, they shall not cause Shanghai Qiyu to provide any person with any loan, financial assistance, security, pledge or any other form of security, or permit any form of security to be created on its assets or equity interests, except those contracts executed in the ordinary and usual course of business;
- (ix) they shall provide our WFOE with information on Shanghai Qiyu's business operations and financial condition within 10 days after the end of each quarter or at the request of our WFOE;

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- (x) they shall procure and maintain insurance in respect of Shanghai Qiyu's assets and business from an insurance carrier acceptable to our WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- (xi) without the prior written consent of our WFOE, they shall not cause or permit Shanghai Qiyu to merge, consolidate with, acquire or invest in any person;
- (xii) they shall immediately notify our WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to Shanghai Qiyu's assets, business or revenue, shall take all necessary actions pursuant to reasonable requests of our WFOE and shall only reach settlement in respect of such proceedings with the prior written consent of WFOE;
- (xiii) to maintain the ownership by Shanghai Qiyu of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- (xiv) without the prior written consent of our WFOE, Shanghai Qiyu shall not in any manner distribute dividends to its shareholder, provided that upon the written request of our WFOE, Shanghai Qiyu shall immediately distribute all distributable profits to its shareholders;
- (xv) at the request of our WFOE, they shall appoint any persons designated by our WFOE as the directors, supervisors and/or senior management of Shanghai Qiyu or terminate existing directors, supervisors and/or senior management of Shanghai Qiyu, and perform all relevant resolutions and filing procedures; and
- (xvi) if Shanghai Qiyu or its shareholder fails to perform the tax obligations under applicable laws, and hence obstructs our WFOE in exercising its exclusive option right, Shanghai Qiyu or its shareholder shall pay the taxes or pay the same amount to our WFOE so our WFOE may pay the taxes on behalf of Shanghai Qiyu or its shareholder.

In addition, Shanghai Qibutianxia has irrevocably undertaken, among other things, that:

- (i) without our WFOE's prior written consent, it shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in Shanghai Qiyu, or allow the encumbrance thereon of any security interest, except for the equity pledge under Shanghai Qiyu's equity interests pursuant to the Equity Interest Pledge Agreement;
- (ii) it shall not carry out any business or any other act that adversely affect the reputation of Shanghai Qiyu;

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- (iii) it shall take all measures to ensure the legality and validity of all licenses and permits relevant to principal businesses of Shanghai Qiyu and to renew such licenses and permits timely in accordance with the laws;
- (iv) it shall not sign any document or make any undertaking that conflicts with any legal document that has been signed and is being performed by Shanghai Qiyu, our WFOE or its designated person; it shall not by any act or omission cause any conflict of interest between itself and our WFOE or its shareholders; if any such conflict of interest arises, it shall take actions with the consent of our WFOE or its designated person to resolve such conflict timely;
- (v) without our WFOE's prior written consent, it shall not directly or indirectly participate in or carry out any business in competition or potentially in competition with the business of our WFOE, Shanghai Qiyu and their subsidiaries, or hold any interest or asset in any such business (except for interest of less than 5%);
- (vi) it shall procure the shareholders' and/or board meeting of Shanghai Qiyu to vote on the approval of the transfer of equity interests and any take any and all other actions requested by our WFOE;
- (vii) at the request of our WFOE, it shall promptly and unconditionally transfer equity interests and/or assets of Shanghai Qiyu to our WFOE or its designated person, and it hereby relinquishes any pre-emptive right it is entitled to in relation to the transfer of equity interest by any other shareholders to Shanghai Qiyu (if any); and
- (viii) it shall not request Shanghai Qiyu to pay any dividend or make any distribution in any other form in respect of its equity interests in Shanghai Qiyu, shall not propose any shareholder's resolution to that effect or vote in favor of any shareholder's resolution to that effect; to the extent permitted by PRC law, it shall waive any profit, distribution, or dividend received from Shanghai Qiyu and pay or transfer such profit, distribution, or dividend received to our WFOE or its designated person immediately.

The Exclusive Option Agreement has an indefinite term commencing from its date of signing unless and until all the equity interests and assets subject to the agreement have been transferred to our WFOE and/or its designated person and our WFOE and its subsidiaries or affiliates can legally operate the business of Shanghai Qiyu, whereby the exclusive option agreement shall terminate. Our WFOE is entitled to unilaterally terminate the Exclusive Option Agreement while other parties to the Exclusive Option Agreement may not terminate the Exclusive Option Agreement unilaterally, unless otherwise provided under PRC laws.

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Exclusive option agreements with terms that are substantially similar to the Exclusive Option Agreement described above have been entered into among (i) our WFOE, Fuzhou Financing Guarantee and Shanghai Qibutianxia, and (ii) our WFOE, Shanghai Financing Guarantee, Beijing Zhongxin Baoxin Technology Co., Ltd. and Beijing Qicaitianxia Technology Co., Ltd., respectively, on June 1, 2022.

Equity Interest Pledge Agreements

Our WFOE, Shanghai Qiyu and Shanghai Qibutianxia entered into an equity interest pledge agreement on June 1, 2022 (the "**Equity Interest Pledge Agreement**"), pursuant to which Shanghai Qibutianxia agreed to pledge all of its equity interests in Shanghai Qiyu to our WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Interest Pledge Agreement, Shanghai Qiyu and Shanghai Qibutianxia represent and warrant to our WFOE that appropriate arrangements have been made to protect our WFOE's interests in the event of bankruptcy or any other event which causes Shanghai Qibutianxia's inability to exercise its rights as a shareholder of Shanghai Qiyu to avoid any practical difficulties in enforcing the equity pledge agreement and shall procure or use its reasonable efforts to procure any successors of Shanghai Qibutianxia to comply with the same undertakings as if they were parties to the equity interest pledge agreement. In the event of a breach by Shanghai Qiyu or Shanghai Qibutianxia of contractual obligations under the Contractual Agreements, our WFOE, as pledgee, will have the right to dispose of the pledged equity interests in Shanghai Qiyu. Shanghai Qibutianxia has undertaken to our WFOE, among other things, not to transfer its equity interests in Shanghai Qiyu and not to create or allow any pledge thereon that may affect the rights and interest of our WFOE without its prior written consent.

The equity pledge under the Equity Interest Pledge Agreement takes effect upon registration with the relevant authority in the PRC and shall remain valid until (i) all the obligations under the Contractual Arrangements have been fulfilled; (ii) our WFOE decides to purchase, to the extent permitted by the laws of PRC, all the equity interests held by Shanghai Qibutianxia in Shanghai Qiyu, all equity interests in Shanghai Qiyu have been transferred legally to the pledgee or its designated person in accordance with the Exclusive Option Agreement mentioned above and/or the pledgee or its subsidiaries or affiliates can legally engage in the business of Shanghai Qiyu; (iii) our WFOE decides to purchase, to the extent permitted by the laws of the PRC, all the assets of Shanghai Qiyu in accordance with the Exclusive Option Agreement mentioned above, the assets of Shanghai Qiyu have been legally transferred to our WFOE and/or its designated party, and/or our WFOE, its subsidiaries and affiliates can legally engage in the business of Shanghai Qiyu using such assets; (iv) our WFOE unilaterally requests the termination of the Equity Interest Pledge Agreement; or (v) upon termination as required by applicable laws and regulations of the PRC.

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Equity interest pledge agreements with terms substantially similar to the Equity Interest Pledge Agreement described above were entered into among (i) our WFOE, Fuzhou Financing Guarantee and Shanghai Qibutianxia; and (ii) our WFOE, Shanghai Financing Guarantee, Beijing Zhongxin and Beijing Qicaitianxia, respectively, on June 1, 2022.

Voting Proxy Agreements

Our WFOE, Shanghai Qiyu and Shanghai Qibutianxia entered into a voting proxy agreement on June 1, 2022 (the "**Voting Proxy Agreement**"), pursuant to which Shanghai Qibutianxia irrevocably authorized our WFOE or any person designated by our WFOE (including any director of its direct or indirect offshore parent company and liquidators exercising such directors' powers or other successors) to act as its attorney-in-fact to exercise all of its rights as a shareholder of Shanghai Qiyu, including, but not limited to: (i) to convene and participate in shareholders' meeting pursuant to the constitutional documents of Shanghai Qiyu in the capacity of a proxy of Shanghai Qibutianxia, and to sign any and all written resolutions and meeting minutes for and on behalf of Shanghai Qibutianxia; (ii) to exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Shanghai Qiyu, on behalf of Shanghai Qibutianxia, and adopt resolutions, including but not limited to dividend rights, sale or transfer or pledge or disposal of part or all of Shanghai Qiyu's equity, and the right to appoint directors; (iii) to sign or submit any required document to any company registry or other authorities; and (iv) to nominate, designate or appoint and remove the legal representative, directors, supervisors and other senior management of Shanghai Qiyu pursuant to the constitutional documents of Shanghai Qiyu; to raise lawsuits or other legal proceedings against the directors, supervisors and senior management of Shanghai Qiyu when their behaviors harm the interest of Shanghai Qiyu or its shareholder; and to instruct the directors and senior officers to act in accordance with our attention.

Shanghai Qibutianxia has undertaken that it will refrain from any action or omission that may cause any actual or potential conflict of interest between Shanghai Qibutianxia, our WFOE or its designated person.

Shanghai Qibutianxia has also undertaken that its successors, guardians, and any other persons who may be entitled to assume rights and benefits in its equity interests in Shanghai Qiyu upon its insolvency, liquidation, dissolution or any other circumstances that may affect its exercise of the shareholders' rights in respect of Shanghai Qiyu shall be deemed to be signatories of the Voting Proxy Agreement and assume all rights and obligations under the Voting Proxy Agreement if any of such circumstances occur.

The Voting Proxy Agreement has an indefinite term commencing from June 1, 2022 and will be terminated in the event that (i) it is unilaterally terminated by our WFOE, or (ii) it is legally permissible for our WFOE, our Company or any of our subsidiaries to hold equity interests directly or indirectly in Shanghai Qiyu and our WFOE or its designated person is registered to be the sole shareholder of Shanghai Qiyu.

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Voting proxy agreements with terms substantially similar to the Voting Proxy Agreement described above were entered into among (i) our WFOE, Fuzhou Financing Guarantee and Shanghai Qibutianxia; and (ii) our WFOE, Shanghai Financing Guarantee, Beijing Zhongxin Baoxin Technology Co., Ltd. and Beijing Qicaitianxia Technology Co., Ltd., respectively, on June 1, 2022.

Loan Agreements

Our WFOE, Shanghai Qiyu and Shanghai Qibutianxia entered into a loan agreement on June 1, 2022 (the "**Loan Agreement**"), pursuant to which our WFOE is entitled to provide interest-free loans, to the extent permitted by laws, regulations and industry policies of the PRC from time to time at such time and amount as it deems appropriate to Shanghai Qibutianxia for the purposes of Shanghai Qiyu's business operation and development, including but not limited to directly injecting such funds to the registered capital of Shanghai Qiyu.

Each of the loans made under the Loan Agreement has no fixed term. Unless otherwise agreed, our WFOE shall unilaterally decide when to withdraw the loans, provided that our WFOE shall notify Shanghai Qibutianxia in writing one month in advance.

The Loan Agreement shall remain in effect during Shanghai Qiyu's term and the renewable period stipulated by the laws of the PRC. The Loan Agreement shall automatically terminate after our WFOE and/or other entities designated by our WFOE fully exercise all their rights an interest directly held by Shanghai Qibutianxia in Shanghai Qiyu under the Exclusive Option Agreement mentioned above. Our WFOE may unilaterally terminate the Loan Agreement after thirty (30) days' notice. Unless otherwise stipulated by the law of the PRC, neither Shanghai Qibutianxia nor Shanghai Qiyu shall have the right to unilaterally rescind or terminate the loan agreement under any circumstances.

Loan agreements with terms substantially similar to the Loan Agreement described above were entered into among (i) our WFOE, Fuzhou Financing Guarantee and Shanghai Qibutianxia; and (ii) our WFOE, Shanghai Financing Guarantee, Beijing Zhongxin Baoxin Technology Co., Ltd., Shanghai Qibutianxia and Beijing Qicaitianxia Technology Co., Ltd., respectively, on June 1, 2022.

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Other Key Terms of the Contractual Arrangements

A description of other key terms that apply to the applicable agreements under the Contractual Arrangements is set out below:

Arrangements to Protect our Group's Interests in the Event of Bankruptcy of the Registered Shareholders and in the Event of Death, Bankruptcy or Divorce of the Beneficial Shareholder of Shanghai Qibutianxia

The Registered Shareholders of our Principal VIEs include Shanghai Qibutianxia, Beijing Zhongxin and Beijing Qicaitianxia.

Pursuant to the Contractual Arrangements, each of the Registered Shareholders shall not, among others, file a petition for corporate separation, merger, bankruptcy, liquidation, dissolution and termination, without prior written consent of our WFOE. Furthermore, each of the Registered Shareholder undertakes to our WFOE that, in the event of bankruptcy, liquidation or other circumstances regarding the Registered Shareholders which may affect the exercise of its direct or indirect equity interest in Shanghai Qiyu, Fuzhou Financing Guarantee or Shanghai Financing Guarantee, each Registered Shareholder's respective successor, liquidator, and any other person/entity which may as a result of the above events obtain the equity interest or relevant rights directly or indirectly, shall not prejudice or hinder the enforcement of the Contractual Arrangements.

Both Shanghai Qicaitianxia and Beijing Zhongxin are wholly-owned by Shanghai Qibutianxia. Shanghai Qibutianxia is owned as to 65.74% by Tianjin Qixinfukong Technology Co., Ltd. (天津奇信富控科技有限公司), which is in turn owned as to 84.95% by Tianjin Qixinzhiheng Technology Co., Ltd. (天津奇信志成科技有限公司), a company of which Mr. Zhou is the largest shareholder with 17.38% equity interest. Such arrangement would be favorable for the enforcement of the Contractual Arrangements. Mr. Zhou has confirmed and issued an undertaking to our Company that (i) he will sign all necessary documents and take all necessary acts to ensure the proper performance of the Contractual Arrangements, and (ii) he will take all necessary measures to ensure that, in the event of his death, restricted capacity or incapacity, divorce or any other event which causes his inability to exercise his rights as an indirect shareholder of Shanghai Qiyu, Fuzhou Financing Guarantee or Shanghai Financing Guarantee to perform the foregoing undertaking, his successors (including his spouse) and any other person/entity which may as a result of the above events obtain the equity interest or relevant rights in Shanghai Qiyu, Fuzhou Financing Guarantee or Shanghai Financing Guarantee directly or indirectly will be bound by the undertaking to support and safeguard the enforcement of Contractual Arrangements.

As advised by our PRC Legal Adviser, there is no legal impediments to enforce the terms and arrangements under the Contractual Arrangement to safeguard the interests of the shareholders in the event of any bankruptcy or liquidation of the Registered Shareholders.

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Dispute Resolution

Each of the agreements underlying the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute with respect to the construction and performance of the Contractual Arrangements, the parties shall first negotiate in good faith to resolve the dispute; in the event the parties fail to settle the dispute within thirty (30) days of a negotiation request, any party may submit the relevant dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with its then effective arbitration rules. The arbitration shall be held in Beijing and conducted in Chinese. The arbitral award shall be final and binding on all parties. Except for the subject matter of the dispute itself, the parties shall continue exercising and performing their respective rights and obligations under the Contractual Arrangements.

The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our Consolidated Affiliated Entities or injunctive relief or order the winding up of our Consolidated Affiliated Entities; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the mainland China and the places where the principal assets of our Consolidated Affiliated Entities are located for interim remedies or injunctive relief.

In connection with the dispute resolution method as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Adviser that:

- (a) a tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to current PRC laws and regulations; and
- (b) interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities.

As a result of the above, in the event that our Consolidated Affiliated Entities or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See "Risk Factors – Risks Related to Our Corporate Structure – The registered shareholders of our VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition" for details.

Conflict of Interest

Each of the Registered Shareholders has given its irrevocable undertakings in the Voting Proxy Agreement which address potential conflicts of interests that may arise in connection the Contractual Arrangements. See "– Voting Proxy Agreements."

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Loss Sharing

Under the relevant PRC laws and regulations, neither our Company nor our WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Our WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

Liquidation

Pursuant to the exclusive option agreements, in the event of a mandatory liquidation required by the PRC laws and regulations, the Registered Shareholders have irrevocably undertaken that, in compliance with the PRC laws and regulations, Shanghai Qiyu, Fuzhou Financing Guarantee and Shanghai Financing Guarantee shall transfer all remaining asset to our WFOE or assignee, at the lowest price as permitted by the PRC laws and regulations. Shanghai Qiyu, Fuzhou Financing Guarantee or Shanghai Financing Guarantee shall waive any payment obligation of our WFOE or assignee arising thereon to the extent permitted by then applicable laws of the PRC in force; or shall return our WFOE or assignee any income (if any) arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

Pursuant to the exclusive option agreements and the exclusive business cooperation agreements, the Registered Shareholders have undertaken to appoint committees designated by our WFOE as liquidation committees upon the winding up of Shanghai Qiyu, Fuzhou Financing Guarantee or Shanghai Financing Guarantee to manage their respective assets. However, in the event of a mandatory liquidation required by PRC laws and regulations or bankruptcy liquidation, these provisions may not be enforceable under the PRC laws and regulations.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

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Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its business through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our Directors are of the view that the Contractual Arrangements are narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Adviser is of the opinion that:

- (1) parties to each of the Contractual Arrangements are entitled to execute the agreements;
- (2) the Contractual Arrangements are legal, valid and binding on the parties thereto, the contents of each agreement do not violate the mandatory provisions of current PRC laws, except in the following cases: under the current PRC laws, the arbitration body does not have the power to grant any injunctive relief, requiring civil entities to act or not to act, therefore the injunctive relief and other temporary relief measures under Contractual Arrangements may not be legally and effectively enforced under current PRC law;
- (3) the execution and performance of the Contractual Arrangements do not violate the articles of association of the Principal VIEs;
- (4) the execution of the Contractual Arrangements does not require any pre-approvals from the PRC governmental authorities, except that:
 - (a) the pledge of any equity interest in the Principal VIEs in favor of our WFOE is subject to registration requirements with the relevant PRC government authorities;
 - (b) the exercise of any exclusive option rights by our WFOE under the exclusive option agreements may subject to the approval, filing or registration requirements with the relevant authorities under the then prevailing PRC laws and regulations;
 - (c) the transfer of the equity interest in our Consolidated Affiliated Entities contemplated under the Contractual Arrangements is subject to applicable approval and/or registration requirements under the then applicable PRC laws;
 - (d) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Contractual Arrangements are subject to applications to the competent PRC courts for recognition and enforcement; and

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- (e) under PRC laws, an arbitral body does not have the power to grant any injunctive relief, requiring civil entities to act or not to act, or requiring winding-up of each of our Consolidated Affiliated Entities as interim remedies.
- (5) based on its understanding of the relevant PRC laws and regulations, subject to uncertainties of the enforceability of the dispute resolution provisions of the Contractual Arrangements, and subject as to enforceability to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally, the discretion of relevant governmental authorities in exercising their authority in connection with the interpretation and implementation thereof and the application of relevant PRC Laws and policies thereto, each of these Contractual Arrangements is and taken as a whole are, (i) valid and legally binding on each party thereto, and (ii) enforceable in accordance with the terms thereof.
- (6) the Contractual Arrangements do not violate any mandatory provisions of current PRC laws and regulations.

Our PRC Legal Adviser has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Since PRC laws and regulations governing the validity of these Contractual Arrangements are uncertain and the relevant governmental authorities have broad discretion in interpreting these laws and regulations, we cannot assure you or make any prediction that the Contractual Arrangements will not result in any violation. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws, rules or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including: (a) revoking the business licenses of such entity; (b) discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and Consolidated Affiliated Entities; (c) imposing fines, confiscating the income from our Consolidated Affiliated Entities, or imposing other requirements with which we or our Consolidated Affiliated Entities may not be able to comply; (d) requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our Consolidated Affiliated Entities and deregistering the equity pledges of our Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our Consolidated Affiliated Entities; or (e) restricting or prohibiting our use of the [REDACTED] of any of our financing outside China to finance our business and operations in China.

Our PRC Legal Adviser conducted consultations with the MIIT in April 2021 and with Fujian Financial Supervision Administration and Shanghai Putuo Financial Services Office in March 2021 and July 2022, all being the competent authorities to give relevant confirmations

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as advised by our PRC Legal Adviser. During the consultations, the respective officers confirmed that they do not object to the adoption of the Contractual Arrangements, nor do they expect there to be any penalty or fine on our Group for the adoption of the Contractual Arrangements.

Based on the above advice from our PRC Legal Adviser and confirmation from relevant governmental authorities, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations, and except for the relevant clauses as described in the paragraph headed "Dispute Resolution" and "Liquidation" in this section, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2012 which invalidated certain contractual arrangements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual arrangements commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC; and (ii) the incentive for the registered shareholders under such contractual arrangements to renege on their contractual obligations.

Pursuant to Article 52 of the PRC Contract Law, a contract is void, among other circumstances, where an illegitimate purpose is concealed under the guise of legitimate acts; our PRC Legal Adviser is of the view that the agreements under the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" under Article 52 of the PRC Contract Law for the following reasons: (a) the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right; and (b) the purpose of the Contractual Arrangements is not to conceal illegal intentions, but to pass the economic interests received by our consolidated affiliated entities to our Company.

Furthermore, the PRC Civil Code came into effect on January 1, 2021 and the PRC Contract Law and the General Principles of the PRC Civil Law was repealed simultaneously. The PRC Civil Code no longer specifies "concealing illegal intentions with a lawful form" as the statutory circumstance of a void contract but stipulates certain circumstances which will lead to the invalidation of civil juristic acts, including but not limited to a civil juristic act performed by a person having no capacity for civil conducts, a civil juristic act performed by the actor and the counterparty based on false expression of intention, a civil juristic act violates the mandatory provisions of laws and administrative regulations, a civil juristic act violates of public order and morals, etc. The provisions on the validity of civil juristic acts also apply to

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the validity of contracts. Our PRC Legal Adviser is of the view that the Contractual Arrangements would not fall within the above circumstances which will lead such arrangements as invalid civil juristic act under the PRC Civil Code.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of Our Consolidated Affiliated Entities

Under the exclusive business cooperation agreements, it was agreed that, in consideration of the services provided by our WFOE, our Principal VIEs will pay services fees to our WFOE. The service fees, without contravening PRC laws, are equal to the entirety of the total consolidated profit of our Principal VIEs and its subsidiaries, after the deduction of any accumulated deficit in respect of the preceding financial year(s) (if applicable), operating costs, expenses, taxes and other payments required by the relevant laws and regulations to be reserved or withheld. Notwithstanding the foregoing, our WFOE may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities, and our Principal VIEs shall unconditionally accept such requests of our WFOE. Our WFOE also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, our WFOE has the ability, at its sole discretion, to extract all of the economic benefit of the Principal VIEs through the Exclusive Business Cooperation Agreements.

In addition, under the exclusive option agreements, our WFOE has absolute contractual control over the distribution of dividends to the shareholders of our Consolidated Affiliated Entities in any form as our WFOE's prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through our WFOE and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, the results of operations, assets and liabilities, and cash flows of our Consolidated Affiliated Entities are consolidated into our Company's financial statements.

Our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. Our Reporting Accountant has issued an unqualified opinion on our Group's consolidated financial information as of and for the years ended December 31, 2019, 2020, and 2021 and the six months ended June 30, 2022 as included in the Accountants' Report set out in Appendix IA to this document.

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FOREIGN INVESTMENT LAW

Background

On March 15, 2019, the Foreign Investment Law was formally passed by the thirteenth NPC and took effect on January 1, 2020. The Foreign Investment Law stipulates forms of foreign investment as below:

- foreign investors set up foreign invested enterprises in China severally or jointly with other investors;
- foreign investors acquire shares, equity, properties or other similar interests in any domestic enterprise;
- foreign investors invest in new projects in China severally or jointly with other investors; and
- foreign investors invest through any other methods under laws, administrative regulations, or provisions prescribed by the State Council.

The Foreign Investment Law stipulates that the negative list is applied in certain industry sectors. The negative list set out in the Foreign Investment Law classified the relevant prohibited and restricted industries into the catalog of prohibitions and the catalog of restrictions, respectively, according to which, the foreign investors are not allowed to invest in the areas in which the foreign investment is prohibited. Foreign investors are allowed to invest in sectors set out in the catalog of restrictions, subject to the satisfaction of certain conditions. Foreign investors are allowed to invest in any sector beyond the negative list and shall be managed on the same basis as domestic investments.

Where a foreign investor invests in the sectors specified in the catalog of prohibitions, the relevant competent departments shall order it to stop the investment activities, and dispose of the shares, properties or other necessary measures within a time limit to restore the state before the investment is implemented and the illegal income shall be confiscated (if any). Where the investment activities of a foreign investor violate the restrictive special management measures stipulated in the sectors specified in the catalog of restrictions, the relevant competent departments shall order it to make corrections and take necessary measures to meet the requirements for access to special management measures; where the offender refuses to make corrections, punishments are implemented according to the provisions of the preceding paragraph.

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Impact and potential consequences of the Foreign Investment Law on the Contractual Arrangements

Our PRC Legal Adviser has advised that, since contractual arrangements are not specified as foreign investments under the Foreign Investment Law, and no relevant laws, administrative regulations or provisions of the State Council have incorporated contractual arrangements as a form of foreign investment, the Foreign Investment Law does not apply to our Contractual Arrangements, and it does not substantially change the identification of foreign investors in the field of foreign investment and the principle of recognition and treatment of our Contractual Arrangements. Therefore, each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties if there are no changes to relevant laws and regulations in this respect. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. It is therefore possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it was uncertain as to how our Contractual Arrangements will be handled.

If the Relevant Business is no longer falling within the catalogue of restrictions or certain conditions and permission of foreign investment access required under the Negative List (2021) or other foreign investment policies and we can legally operate our business under PRC laws and regulations, our WFOE will exercise the option under the exclusive option agreements to acquire the equity interest/assets of Shanghai Qiyu, Fuzhou Financing Guarantee and Shanghai Financing Guarantee and unwind the Contractual Arrangements subject to any applicable approvals from the relevant governmental authorities, and subject to any application or approval procedures by the relevant governmental authorities.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (2) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (3) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (4) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of our WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications, and from the iResearch Report, a market research report prepared by iResearch, which was commissioned by us. The information from official government sources has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party (except iResearch) involved in the [REDACTED], and no representation is given as to the completeness, accuracy, or fairness of such information.

SOURCE OF INFORMATION

We commissioned iResearch, a PRC-based independent market research institution that provides consumer insights and market data to companies in various industries, including Credit-Tech, mobile internet, big data, information technology, e-commerce and advertising, among others. We have agreed to pay a fee of RMB750,000 to iResearch in connection with the preparation of the iResearch Report. We have extracted certain information from the iResearch Report in this section, as well as in "Business" and elsewhere in this document to provide our potential [REDACTED] with a more comprehensive presentation of the industry where we operate.

During the preparation of the iResearch Report, iResearch performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on the industry trends of the Credit-Tech industry in China. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, such as the PRC National Bureau of Statistics, other government departments and various industry associations, publications and studies by industry experts, public company annual and quarterly reports, iResearch's other research reports, online resources and data from iResearch's research database.

iResearch's projection on the size of the related markets in China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding Credit-Tech platforms, and (iii) iResearch's views and estimates of industry developments. iResearch has prepared the iResearch Report on the assumptions that (i) the social, economic and political environments of China will remain stable during the forecast period, which ensures a sustainable and steady development of China's Credit-Tech industry, (ii) the COVID-19 pandemic is likely to pose short-term impact on China's economy and the Credit-Tech industry, and the short-term impact of the COVID-19 pandemic has been taken into consideration in the iResearch Report, (iii) the data quoted from authoritative agencies remain unchanged, (iv) related key industry drivers remain relevant and applicable in the forecast period, and (v) there will be no subversive changes to the related industries.

INDUSTRY OVERVIEW

iResearch believes that the basic assumptions used in preparing the iResearch Report, including those used to make future projections, are factual, correct and not misleading. The information and data collected by iResearch have been analyzed, assessed, and validated using iResearch's in-house analysis models and techniques, but the reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

OVERVIEW OF THE CREDIT-TECH INDUSTRY IN CHINA

Credit technology services, or Credit-Tech, refer to using advanced or innovative technologies, business models and operational solutions to empower and enhance credit services, which is characterized by distinguished efficiency and quality. The Credit-Tech industry in China evolves from the traditional credit industry, and compared to traditional credit solutions, Credit-Tech services feature broader borrower outreach, enhanced credit assessment, improved operating efficiency, and more accessible and convenient user experience.

Challenges Faced by the Traditional Credit Industry in China

Financial institutions in the traditional credit industry face a number of challenges that hinder them from meeting consumers and SMEs' increasingly sophisticated credit demands. From the demand perspective, consumers in need of credit, particularly those who have limited credit history, are calling for efficient financing solutions that offer a high level of flexibility in loan principal amounts, tenors, drawdown frequencies and repayment arrangements to fulfill their financial needs. Meanwhile, SMEs are in grave need of versatile financing solutions to fuel their growth, but generally have difficulty in securing debt financing in the traditional credit industry due to the lack of strong credit profiles, sufficient operating track record, and eligible collateral assets.

These unmet needs for credit impose challenges on the supply end, and financial institutions in the traditional credit industry find it difficult to keep up with such challenges. Financial institutions are challenged to find a cost-efficient way to extend services to such an expansive base of unserved or underserved prospective borrowers. Also, it is challenging for financial institutions to equip themselves with strong technology capabilities, especially in the areas of AI and data analytics, credit profiling and risk-based pricing, to (i) effectively discern the portion of consumers and SMEs that are creditworthy for credit lines approval; (ii) launch diversified products that can dynamically balance pricing, loan tenor and principal, among others, in response to different and evolving borrowers needs and credit profiles; (iii) conduct effective credit assessment and control asset quality of the loan portfolios on a continual basis; and (iv) streamline operations and deliver convenient, transparent and intuitive services to satisfy borrowers' heightened expectations. Therefore, a large number of consumers and SMEs are unable to obtain sufficient credit, if at all, from traditional financial institutions to fulfill their financing needs in consumption and other life or business settings.

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Benefits Brought by the Credit-Tech Industry

Aiming to solve these challenges in the traditional credit industry, Credit-Tech platforms emerged to reshape the credit industry as well as the relationships among the market players with innovative products and service offerings. Credit-Tech platforms leverage robust data analytics and other advanced technology capabilities to optimize each aspect of the credit services. Main benefits brought forth by Credit-Tech to the credit industry primarily manifest in user acquisition, credit assessment, fund matching and post-facilitation services.

- **User acquisition.** Enabled by advanced data analytics, Credit-Tech platforms identify the diversified needs of consumers and SMEs and acquire quality users effectively via multi-channels such as targeted online advertising, collaborations with other internet platforms with rich consumption scenarios and heavy user traffic, and offline sales efforts;
- **Credit assessment.** Credit-Tech platforms conduct preliminary credit assessment by using credit profiling models and risk-based pricing models, and empower financial institutions to carry out final risk management and pricing in line with their own risk-management policies and protocols and make the ultimate lending decisions;
- **Fund matching.** Empowered by robust data analytics, Credit-Tech platforms can effectively grasp and evaluate each borrower's diversified needs and credit risks, and can efficiently refer them to suitable financial institutions in line with the financial institutions' risk preference and funding protocols, thereby seamlessly matching credit demand and fund supply; and
- **Post-facilitation services.** Following loan principal disbursement, Credit-Tech platforms carry out ongoing post-facilitation credit assessment, monitor and manage potential overdue risks, and improve collection strategies and efficiency.

SIZE OF THE CREDIT-TECH MARKET IN CHINA

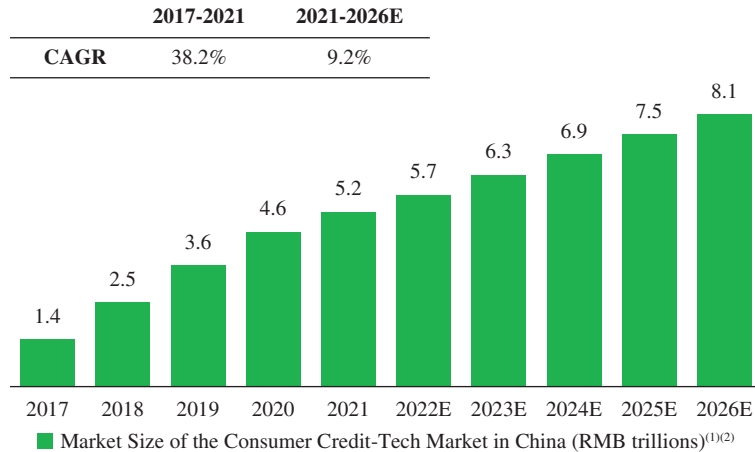
With the development of China's economy and technology, the Credit-Tech industry has witnessed rapid growth in recent years and is expanding with growing maturity and enhanced regulatory compliance. Credit-Tech has become an effective way to provide borrowers with access to comprehensive and convenient credit services, as well as empowering financial institutions with technology capabilities.

Credit-Tech industry originated from serving consumers and the consumer Credit-Tech market remains a significant segment in the Credit-Tech industry of China. While SME loans typically carry a much larger principal amount in comparison with consumer loans, the SME Credit-Tech market has a much shorter history as compared with the consumer Credit-Tech market. With insights and experience accumulated from serving consumers, Credit-Tech platforms have been gradually expanding their services to SMEs in recent years.

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The size of the consumer Credit-Tech market in China measured by total outstanding loan balance increased from RMB1.4 trillion in 2017 to RMB5.2 trillion in 2021 at a CAGR of 38.2%, and is expected to reach RMB8.1 trillion in 2026, representing a five-year CAGR of 9.2% between 2021 and 2026, according to iResearch.

Consumer Credit-Tech Market in China



Source: iResearch Report

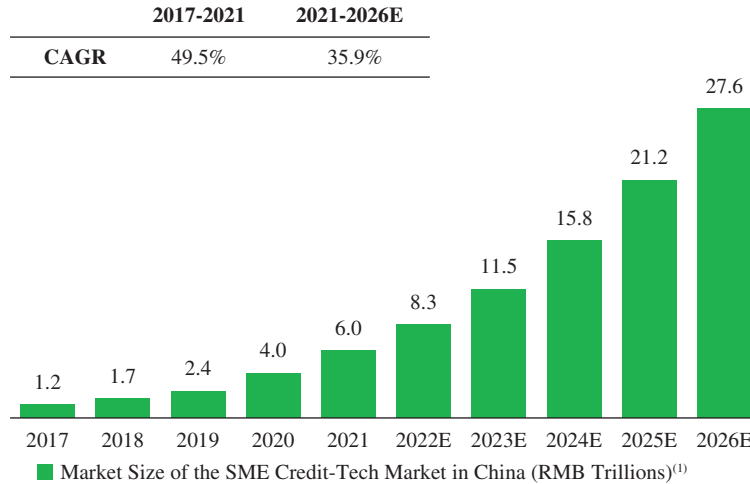
Notes:

- (1) The size of the consumer Credit-Tech market in China refers to the total outstanding balance of online consumer loans offered by traditional financial institutions and Credit-Tech platforms.
- (2) In calculating the market size of the consumer Credit-Tech market, interest-free services of Ant Credit Pay or JD Baitiao are not taken into account. Ant Credit Pay and JD Baitiao are products similar to bank's credit cards, which can be used for payment by eligible borrowers within their lines of credit. Such borrowers usually enjoy a one-month interest-free period after payment. Because the actual lending activity does not occur until such borrowers select a loan tenor, the interest-free service of Ant Credit Pay and JD Baitiao is not included in the calculation of the total outstanding loan balance.

The size of the SME Credit-Tech market in China measured by total outstanding balance of loans with approved credit line below RMB1 million increased from RMB1.2 trillion to RMB6.0 trillion between 2017 and 2021, representing a CAGR of 49.5%, and is expected to further increase to RMB27.6 trillion in 2026, representing a five-year CAGR of 35.9% between 2021 and 2026, according to iResearch.

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SME Credit-Tech Market in China



Source: iResearch Report

Note:

- (1) The size of the SME Credit-Tech market in China refers to the total outstanding balance of online SME loans with approved credit line below RMB1 million offered by traditional financial institutions and Credit-Tech platforms.

BUSINESS MODELS UNDER LOAN FACILITATION SERVICES IN THE CONSUMER CREDIT-TECH MARKET

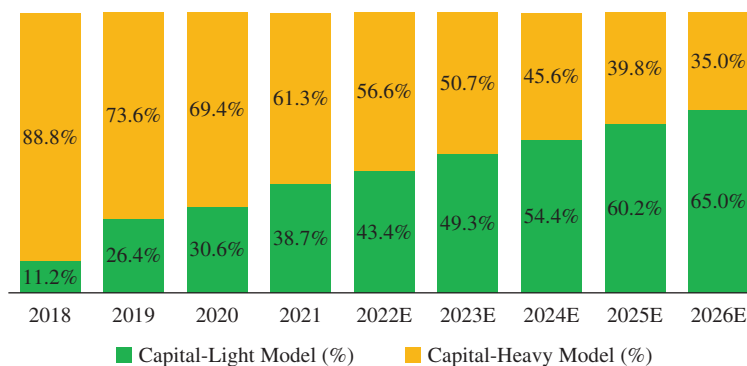
Based on the different sources of funding, credit services in the consumer Credit-Tech industry can be categorized into loan origination and loan facilitation. In loan origination, Credit-Tech platforms and financial institutions use their own fund for lending to borrowers. In contrast, in loan facilitation, Credit-Tech platforms partner with financial institutions in offering borrower acquisition, credit assessment, fund matching and post-facilitation services.

Consumer loan facilitation services are offered under either the capital-heavy model (also known as the credit-driven model) or the capital-light model (also known as the platform model). Under the capital-heavy model, Credit-Tech platforms either contribute a certain share of fund or provide guarantee to financial institutions against potential borrower default, and therefore takes on credit risks. In contrast, under the capital-light model, Credit-Tech platforms do not contribute fund nor take credit risks.

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In recent years, several leading Credit-Tech platforms in the consumer Credit-Tech industry have taken the lead in the transformation into the capital-light model. According to iResearch, the proportion of the capital-light model in the consumer loan facilitation business measured by total outstanding loan facilitation balance increased from 11.2% in 2018 to 38.7% in 2021. With the improvement of technological capacities, accumulation of business experience, optimization of risk management model, and deepened cooperation with financial institutions, these Credit-Tech platforms have won the trust of financial institutions, and the proportion of risks that need to be taken by them gradually decreases. The proportion of the capital-light model in the consumer loan facilitation business measured by total outstanding loan facilitation balance is expected to further increase to 65.0% in 2026, according to iResearch.

Business Models of Loan Facilitation Services in China’s Consumer Credit-Tech Market



Source: iResearch Report

Note:

- (1) The percentage figures represent the proportion of the total outstanding loan balance for loan facilitation services in the consumer Credit-Tech market attributable to capital-light model and capital-heavy model, respectively.

MARKET DRIVERS OF CREDIT-TECH INDUSTRY IN CHINA

China’s Credit-Tech industry is primarily driven by the following market opportunities.

Rising Spending Power and Growing Consumer Market Fuel the Growth of the Consumer Credit-Tech Industry

From 2017 to 2021, the total personal disposable income in China increased rapidly with a five-year CAGR of 7.8%. The consumption expenditure in China grew in parallel with the total personal disposable income. According to iResearch, the average consumption per capita is projected to increase from RMB24,100 in 2021 to RMB36,505 in 2026, representing a CAGR of 8.7%. At the same time, the outstanding balance of China’s consumer loans (excluding house loans) increased from RMB10.9 trillion in 2017 to RMB17.0 trillion in 2021,

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with a CAGR of 11.9%. The growth rate of consumer loans is higher than the growth rate of average consumption per capita from 2017 to 2021, indicating Chinese residents' improved acceptance of consumer loan products. The increasing spending power and the Chinese residents' improved acceptance of consumer loan products are expected to boost the vitality of the consumer Credit-Tech services, which represent a convenient and flexible means for consumptions in China.

Consumer Credit-Tech services provide consumers with a flexible means to finance their consumptions and can ease the liquidity constraint of consumers who have consumption demands but temporarily lack sufficient funds. With the continuous growth in the level of consumer expenditure and the diversification of consumption scenarios, consumer Credit-Tech services have received increasing popularity among consumers. According to iResearch, the penetration of Credit-Tech services in consumption scenarios is expected to further increase.

Digitalization Underpins Rapid Development of Financial Technology Platforms

China has entered the digital era characterized by the deepened penetration of the internet and mobile phones that boosted the digital transformation of residents' daily lives. The number of mobile phone internet users in China is growing rapidly, from 750 million in 2017 to 1.03 billion in 2021, accounting for 72.8% of the total population of China in 2021. According to iResearch, the number of mobile phone internet users in China is projected to reach 78.3% of the total population of China in 2026. As consumers' uptake on digital channels increases, their needs and expectations with respect to easy-to-access financial services offered through online platforms are also rising, requiring financial services players to develop and enhance technology capabilities in order to capture users' evolving demand, acquire users and improve user experience.

Favorable Government Policies Have Been Implemented to Promote SME Loans to Assist Underserved SMEs

Currently, there is a wide gap between the economic contribution of SMEs and the level of financing support that they receive from financial institutions. SMEs in China contributed about 60% of China's GDP, more than 50% of tax payments, more than 70% of technological innovations and more than 80% of employment in urban areas. However, as of the end of 2021, SME loans accounted for only 41% of total corporate loans in terms of outstanding loan balance, which is not proportionate to the economic contribution by SMEs. Driven by policy tailwinds, the future development of the SME Credit-Tech market is promising. The relevant government authorities in China have issued various guidance and measures to promote inclusive lending to SMEs. For example, in April 2019, the General Office of the CPC Central Committee and the General Office of the State Council issued the Guiding Opinions on Promoting the Healthy Development of Small and Medium-Sized Enterprises (《關於促進中小企業健康發展的指導意見》), which require relevant government authorities to refine policies to provide greater access to credit services for small and medium-sized enterprises. In June 2020, the PBOC, the CBIRC, the MOF, the NDRC and the MIIT jointly issued the Notice

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on Increasing Credit Loan Support for Micro- and Small-Enterprises (《關於加大小微企業信用貸款支持力度的通知》), pursuant to which local corporate banking institutions are encouraged to optimize risk assessment in evaluating credit applications of SMEs, deploy big data, cloud computing and other financial technologies to improve their risk assessment and management capabilities and control interest rates for loans extended to SMEs. More recently, in April 2022, the CBIRC issued the Notice to Further Strengthen Credit Support for the Development of Micro- and Small-Enterprises in 2022 (《關於2022年進一步強化金融支持小微企業發展工作的通知》), which requires financial institutions to further develop credit services to SMEs through Credit-Tech and product innovations, among others. Such government policies and measures are designed to address the financing difficulties encountered by SMEs, and are expected to promote the growth in the scale of SME loans and further unleash the potentials in the SME Credit-Tech market.

Development of Frontier Technologies Enables Increasingly Comprehensive Technology Services

A new generation of cutting-edge technologies manifested by data analytics and AI expand the ammunition of Credit-Tech platforms, empowering them to innovate each stage of the credit services. For example, in conducting credit assessment, AI-enabled data analytics technologies have been enabling increasingly accurate and differentiated risk-based pricings of loan products for a given borrower. In the fund matching stage, data-driven automated fund matching systems significantly improve the accuracy and efficiency in matching borrowers' financing requests and risk profiles with the preferences of financial institution partners. In post-facilitation services, intelligent chatbots have been releasing manual labor from repetitive and mundane chores, which, together with the use of AI that helps with dispatching workload, are expected to further enhance the efficiency of credit services.

FUTURE TRENDS OF CREDIT-TECH INDUSTRY IN CHINA

Premised on years of evolution and the market opportunities discussed above, the Credit-Tech industry in China is expected to witness the following trends.

Consumer Needs and Expectations Continue to Grow and Become Increasingly Sophisticated

Deeper penetration of internet coverage and more comprehensive business-to-consumer consumption scenarios are expected to unleash more consumption potential. Meanwhile, as the younger generation progresses in life, individuals in this group are expected to have rising demand for consumption associated with their career, marriage, child-rearing and other stages of their lives. These individuals, with early exposure to the internet, higher acceptance of online consumer finance and more knowledge on the idea of using consumer credit at a reasonable level, are more likely to become users of loan products on the Credit-Tech platforms. Therefore, the market demand for consumer Credit-Tech products is expected to continue to increase.

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Credit Demand by SMEs Continues to Grow

As SMEs continue to grow, their demand for flexible financing services has experienced a steep rise. Notably, the accelerated speed of digitalization and the policy tailwinds in support of SME financing is projected to further lead to a high growth in credit demand from SMEs, encouraging SMEs to seek for credit services that are more diversified and easily accessible. According to iResearch, the size of the SME Credit-Tech market measured by the total outstanding balance of loans with approved credit line below RMB1 million is estimated to reach RMB27.6 trillion in 2026, representing a five-year CAGR of 35.9% between 2021 and 2026.

Heightened Regulatory Environment Give Competitive Advantages to Leading Credit-Tech Platforms

In line with an increasingly strengthened regulatory environment, the Credit-Tech industry faces heightened regulatory compliance requirements, which is expected to pose both challenges and opportunities for players in the industry. Rigorous regulatory environment is projected to further elevate the entry barrier, giving competitive advantages to the leading Credit-Tech platforms. In the meantime, an increasing number of long-tail platforms may leave the market due to the inability to obtain the required business permits or licenses, or the difficulties in acquiring qualified users and maintaining stable profitability under the evolving regulatory environment. As a result, users of such platforms are expected to switch to the leading Credit-Tech platforms with advanced proprietary technology, credit assessment capabilities and diversified product offerings.

Technology Attributes of Credit-Tech Platforms Becomes Increasingly More Relevant

As the Credit-Tech industry continues to develop, it is expected to witness a steady and sustainable growth, propelled by the launch of more diversified products and refined services. The work allocation between market participants in different stages of the lifecycle of a loan is likely to be clearly defined. Such trend is expected to make the technology attributes of Credit-Tech platforms increasingly more relevant. Through technology, Credit-Tech platforms are projected to empower more financial institutions and construct broader networks of partnership. In return, they are likely to be benefitted by gaining experience and user insights through such cooperation and thereby further developing and enhancing their services within the regulatory framework.

COMPETITIVE LANDSCAPE ANALYSIS

Competitive Landscape of the Consumer Credit-Tech Market

Consumer Credit-Tech market currently is the most established segment of the Credit-Tech industry in China, and remains to be the main competition arena for Credit-Tech platforms. 360 DigiTech currently primarily targets this market. Among all Credit-Tech

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platforms in the consumer Credit-Tech market, the top five platforms in the aggregate had taken 35.8% of the market share in 2021 measured by the total outstanding loan balance in the consumer Credit-Tech market in China.

Key Success Factors for Credit-Tech Platforms

Future success of players in the Credit-Tech industry is expected to be affected by the following key factors:

Technology. Seamless integration of data analytics, AI and other cutting-edge technologies with credit services and the construction of financial technology infrastructure are pivotal to the sustainable and healthy development of Credit-Tech platforms. Credit-Tech platforms need to build strong technology capability to effectively reduce the marginal costs of user acquisition and credit services, improve operational efficiency and enhance credit assessment capabilities. Only with constant technology advancement can Credit-Tech platforms become more capable of providing services to scaled and diversified consumers as well as long-tail SMEs more directly and efficiently, thereby accomplishing the mission of financial inclusion.

User acquisition. Effective and efficient user acquisition enables Credit-Tech platforms to achieve deeper user penetration and sustainable business growth. Credit-Tech platforms should deploy both online and offline user acquisition channels and collaborate with internet platforms with heavy user traffic in order to acquire users to the maximum extent.

Credit assessment. In-depth user insights, interactive algorithm models and a powerful credit profiling system are the foundation for effective credit assessment. As one of the most important aspects of credit assessment, a reasonable risk-based pricing system can provide borrowers with more suitable certain terms that are in line with their credit credentials while controlling overall risk level. Furthermore, a superior risk-based pricing system can better grasp the overall risk level and interest rate sensitivity of borrowers, and optimize Credit-Tech platforms' scale and profitability under different business strategies. This helps Credit-Tech platforms adjust business strategies more quickly and take scale, risks, and return on investment into full consideration in providing services.

Partnership with financial institution. Collaborations with financial institutions help Credit-Tech platforms develop services, expand reach to broader user groups and further extend the network of financial institution partners. Against the backdrop of stringent regulatory requirements, leading Credit-Tech platforms that are compliant with applicable laws and regulations are more likely to forge deep relationships with financial institutions of various types and sizes. In addition, leading Credit-Tech platforms are better positioned to serve financial institution partners capitalizing on their ability to grow user base, profound user insights, advanced credit assessment capabilities and other technology edges.

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WHO WE ARE TODAY

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. We bear credit risks under credit-driven services, under which we either provide guarantee services against potential default risks for the loans funded by our financial institution partners or fund certain loans through trusts and ABSs or Fuzhou Microcredit. As of June 30, 2022, the outstanding loan balance under credit-driven services was RMB67.9 billion. As of June 30, 2022, we recorded guarantee liabilities-contingent for off-balance sheet loans facilitated under credit-driven services of RMB3,320 million (US\$496 million). During the Track Record Period, our repayments to financial institution partners relating to guarantee liabilities-contingent, net of subsequent recoveries from the borrowers, were RMB2,881 million, RMB3,938 million, RMB3,337 million and RMB2,127 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

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.

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Our value proposition is to connect financial institutions and borrowers through our technology innovations, transforming credit services in a way that is more accessible to consumers and SMEs, while empowering financial institutions across different stages of the loan lifecycle. In particular, we believe our services provide substantial value to the following industry participants:

- **Financial institution partners.** We offer technology-driven services, empowering our financial institution partners with an efficient online lending process. Our technology infrastructure seamlessly integrates with those of our financial institution partners, providing them a wide range of technology solutions that collectively deliver real-time automatic borrower acquisition as well as enhanced credit screening, post-facilitation services and other aspects of operations. We avail our financial institution partners of a rapidly growing base of quality borrowers, an expanded scale of credit assets and improved risk-adjusted returns. As of June 30, 2022, we had established partnerships with a total of 133 financial institutions cumulatively, including national and regional banks and consumer finance companies which are non-banking financial institutions that provide loans to individuals for the purpose of consumption.
- **Consumers.** We target the large and growing population of consumers whose credit demands are underserved or unserved by traditional financial institutions. Such population typically has limited credit history and stable income with promising growth potentials and has great user lifetime values. However, in lack of effective measures to screen off the risk associated therewith, credit services from traditional financial institutions have not effectively penetrated this group. Leveraging our advanced technology and credit profiling capabilities, we are able to effectively identify users with low delinquency risks and convert them into borrowers, thereby enabling financial institutions to extend their borrower reach while availing these borrowers of suitable, easy-to-access financial products with sufficient lines of credit, reasonable pricing and high levels of flexibility. We believe we are chosen by our users because of our well-established industry reputation and the convenient, fast, intuitive and transparent user experience that we offer through our platform.
- **SMEs.** Since late 2020, we have begun facilitating tailored loan products to quality SMEs. We believe this group is unserved or underserved by traditional financial institutions, which typically focus on providing services to larger enterprises with a long credit history and operating track record, and with tangible collateral for loans. Drawing on our data analytics and credit profiling capabilities, we are equipped to identify those SMEs who are less likely to carry delinquency risks despite their lack of sufficient credit records and tangible collaterals, and convert them into borrowers of our financial institution partners. The tailored products extended through our platform are flexible, collateral-free and satisfactory to the SMEs' credit needs.

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Our Services

We offer diverse services to our partners and users. Our services are generally categorized into either credit-driven services or platform services based on the nature of services and the level of credit risks associated therewith. In each type of these services, regardless of the level of credit risks involved, we empower partners and users with an efficient lending/borrowing process, improved credit assessment and enhanced lending/borrowing experience.

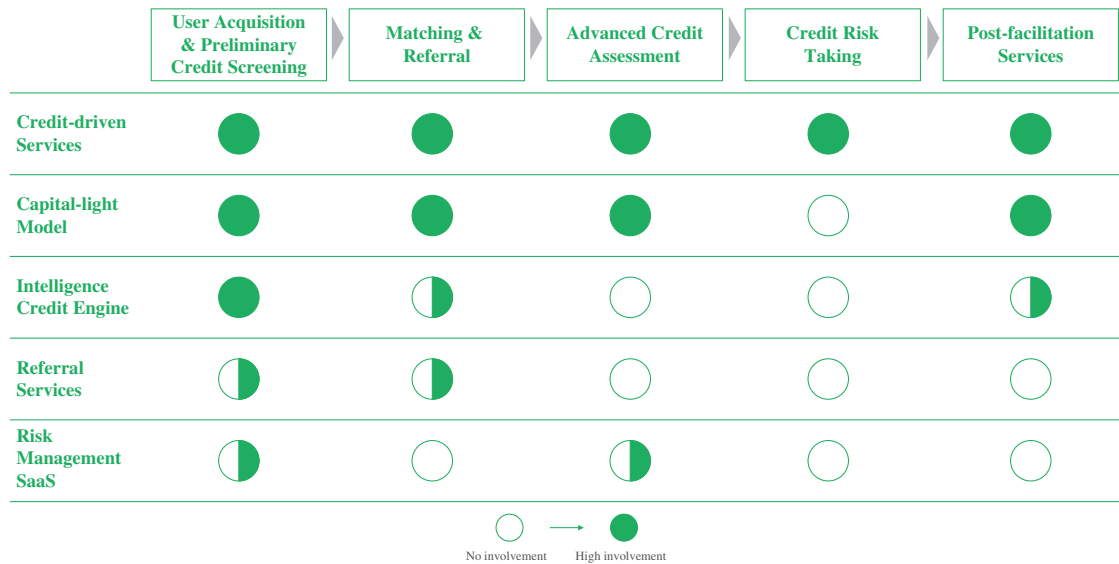
- **Credit-driven services.** We match prospective borrowers with financial institutions and empower financial institutions in borrower acquisition, credit assessment, fund matching, and post-facilitation services. Loan products offered under this line of services are, in most cases, funded by our financial institution partners to whom we provide guarantee services against potential default risks, with the remainder extended by trusts and ABSs or Fuzhou Microcredit, which is licensed to conduct micro-lending business in China. As we provide guarantees against potential defaults or fund certain loans through trusts and ABSs or Fuzhou Microcredit, we bear credit risks under credit-driven services.
- **Platform services.** Tailoring to our financial institution partners' diverse needs, we provide customized technology solutions at different stages of the loan lifecycle, such as borrower acquisition, credit assessment and post-facilitation services. Specifically, our platform services include comprehensive loan facilitation and post-facilitation services under the capital-light model, intelligent marketing services to financial institution partners under Intelligence Credit Engine (ICE), referral services and risk management SaaS. We currently do not take credit risk under platform services. For the year ended December 31, 2021 and the six months ended June 30, 2022, loans facilitated by us under platform services accounted for approximately 54.4% and 54.8% of our total loan facilitation volume, respectively.
- **Capital-light model.** Under the capital-light model, we facilitate transactions between prospective borrowers and our financial institution partners through a comprehensive suite of technology-enabled services spanning the loan lifecycle, from borrower acquisition, technology empowerment in credit assessment to post-facilitation services such as loan performance monitoring and loan collection. For loans facilitated under the capital-light model, we generate income through service fees charged to financial institution partners according to pre-negotiated terms. As of June 30, 2022, we had worked with 56 financial institution partners under the capital-light model, cumulatively.
- **Intelligence Credit Engine (ICE).** ICE is an open platform that offers financial institutions intelligent marketing services. We match prospective borrowers and our financial institution partners leveraging user analytics and cloud computing technologies, and assist financial institution partners with preliminary credit screening of borrowers. We earn pre-negotiated service fees from financial institution partners and do not bear credit risks.

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- **Referral services.** We refer some users on our platform who do not fit our financial institution partners’ risk preference to certain online lending companies, and earn referral fees.
- **Risk management SaaS.** In 2020, we began offering financial institutions on-premise deployed, modular risk management SaaS to empower them to acquire borrowers and improve credit assessment results. Under this model, we typically take technology service fees or consulting fees for the corresponding technology solutions elected by the financial institutions.

The chart below illustrates our level of involvement spanning different stages of the loan lifecycle by service type.

Our Services



Our Business Scale

We have experienced rapid and continuous growth since inception. As of June 30, 2022, we had 41.3 million users with approved credit lines in the aggregate and had cumulatively served 25.6 million borrowers. As of June 30, 2022, we had cumulatively facilitated approximately RMB1,127.5 billion (US\$168.3 billion) of loans with an outstanding loan balance of RMB150.5 billion (US\$22.5 billion).

Our total net revenue increased by 47.1% from approximately RMB9.2 billion in 2019 to approximately RMB13.6 billion in 2020, and further by 22.6% to approximately RMB16.6 billion in 2021. Our total net revenue increased by 11.9% from RMB7.6 billion in the six months ended June 30, 2021 to RMB8.5 billion (US\$1.3 billion) in the same period of 2022. We generated net income of RMB2.5 billion, RMB3.5 billion, RMB5.8 billion, RMB2.9 billion and RMB2.1 billion (US\$321 million) in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

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The graph below displays the loan facilitation volume, outstanding loan balance, cumulative number of users with approved credit lines, cumulative number of borrowers, total net revenue and net income from 2017 to 2021 and for the six months ended June 30, 2021 and 2022.



Our Collaboration with 360 Group and Kincheng Bank

360 Group

We partner with 360 Group (SH: 601360), a leading technology company in China, in areas including, among others, technology, user traffic and brand. Historically, we had benefitted from 360 Group’s experience and unique technology edges in security and anti-fraud.

Kincheng Bank

We also closely collaborate with Kincheng Bank of Tianjin Co., Ltd., or Kincheng Bank, an affiliate of 360 Group and in which Mr. Zhou beneficially owned approximately 5.85% of the equity interests on a look-through basis as of the Latest Practicable Date, across a full array of loan facilitation and post-facilitation services. Kincheng Bank is one of the three private

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banks with an internet company as its largest shareholder in China, according to iResearch. As of June 30, 2022, Kincheng Bank was our largest financial institution partner measured by outstanding loan balance. During the Track Record Period, revenue attributable to loans funded by Kincheng Bank under credit-driven services was nil, nil, nil and RMB2 million (US\$0.2 million) in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. During the same periods, revenue attributable to loans funded by Kincheng Bank under platform services was nil, RMB16 million, RMB1,881 million and RMB684 million (US\$102 million) in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

The following table sets forth the transaction amounts for the transactions between Kincheng Bank and us for the periods presented.

	Transaction amounts <i>(RMB)</i>
For services provided by us to Kincheng Bank	2020: 15.7 million 2021: 1,880.5 million 2022 6M: 685.7 million
Amounts due from Kincheng Bank to us	2020: 13.5 million ⁽¹⁾ 2021: 771.3 million ⁽²⁾ 2022 6M: 572.3 million ⁽³⁾

Notes:

- (1) Loan facilitation and post-facilitation services was RMB15.1 million, net of allowance of RMB1.1 million.
 - (2) Loan facilitation and post-facilitation services of RMB823.6 million, net of allowance of RMB106.3 million.
 - (3) Loan facilitation and post-facilitation services of RMB490.2 million, net of allowance of RMB108.1 million.
- * We have held bank deposit with Kincheng Bank, which amounted to RMB320 million as of December 31, 2021. For more details, see Note 10 of the Accountants' Report in Appendix IA.

Besides, we collaborate with Kincheng Bank in areas such as user acquisition, data analytics and risk management empowerment under both credit-driven services and platform services in the same manner as we collaborate with other financial institution partners. For example, we deploy Argus Engine with AI-powered data analytic capabilities in fraud detection and initial credit assessment and share with Kincheng Bank the results of such assessment to facilitate its final risk management and credit decision making. Our strategic partnership with Kincheng Bank brings us vast opportunities in expanding the scope of our products and services to consumers and SMEs, and provides us the flexibility to introduce innovative technology solutions and creative commercial models within the regulatory framework, thereby strengthening our distinct competitive advantage in the industry.

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OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and growth.

Distinct competitive edge in a massive and growing market with high entry barrier

We currently primarily target the consumer Credit-Tech market, which is massive and rapidly growing. According to iResearch, the size of the consumer Credit-Tech market in China reached RMB5.2 trillion in 2021 measured by total outstanding loan balance, and is projected to reach RMB8.1 trillion in 2026, representing a five-year CAGR of 9.2%. Over the years, we have built clear competitive edges in three major aspects. First, we have obtained the required permits and licenses from relevant governmental authorities to operate in the consumer Credit-Tech market against the backdrop of increasingly tightened regulatory requirements. Second, we have developed robust data analytics, credit assessment and other technology capabilities, which put us in a strong position in the industry. Third, we have developed deep understanding of users and financial institutions and built a vast user base and a broad network of financial institution partners. All of the foregoing factors invariably take lengthy time and heavy investments to develop, and therefore arm us with competitive advantages over our peers and new market entrants.

We have obtained a competitive position among our peers in the consumer Credit-Tech market. As of June 30, 2022, the outstanding balance of consumer loans facilitated by us reached RMB131.1 billion (US\$19.6 billion). As of the same date, the outstanding loan balance under credit-driven services was RMB67.9 billion, under which we either provide guarantee services against potential default risks for the loans funded by our financial institution partners or fund certain loans through trusts and ABSs or Fuzhou Microcredit. We recorded guarantee liabilities-contingent of RMB3,320 million (US\$496 million) and allowance for loans receivable of RMB1,337 million (US\$200 million) as of the same date. Since our inception and up to June 30, 2022, we had accumulated 41.3 million users with approved credit lines and facilitated loans to 25.6 million borrowers cumulatively. With the competitive position achieved, we believe we are well-positioned to tap into the growth headroom and achieve healthy developments as we did during the Track Record Period.

Strong technology and innovation capabilities

With genes of technology, innovation and security, we are constantly innovating technologies as well as developing products and services to cater to users' needs and deliver enhanced user experience, data security and operational efficiency. Our technology capabilities have repeatedly and consistently received market recognitions over the years. In July 2021, we were awarded the Fintech of the Year by the Asset Asian Awards.

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The technology advancement we possess has translated into our ability to refine existing, and develop new, business models and products and services to capture growth opportunities. We are one of the early movers in the industry to launch the capital-light model, which testifies to our innovation and technological capabilities to deal with users with a wide array of risk profiles and credit needs. Under the capital-light model, we empower financial institution partners via technology across the loan lifecycle, with credit risks associated with the loans assumed by financial institution partners. As of June 30, 2022, 56 financial institutions had partnered with us via the capital-light model cumulatively. For the year ended December 31, 2021 and the six months ended June 30, 2022, driven by the capital-light model, loans facilitated under platform services accounted for approximately 54.4% and 54.8% of our total loan facilitation volume, respectively. The successful launch of such business model exhibits, and results from, our consistent, strong track record of operation stability and advancement in credit assessment technologies, for which financial institution partners are comfortable to take risks associated with the loans facilitated by us under this model. Benefiting from our technology capabilities, our operations under the capital-light model continue to drive us towards our goal of being a technology enabler for financial institutions. Another example demonstrating our technology and innovation capabilities is our launch of the innovative "embedded finance" model in 2020, which marked one of the industry's first successful attempt in leveraging robust automated credit assessment, data analytics and other proprietary technologies, to effectively integrate consumer credit services with services of other leading online platforms that have heavy user traffic and diverse life and business scenarios. Due to the superiority of our technologies, even some of our peers in the industry have chosen to collaborate with us under "embedded finance" model to enhance user experience and further monetize their user base.

We have developed a robust, comprehensive technology infrastructure integrated with AI, cloud computing and other core technologies that drive every major aspect of our business, with which we have been able to optimize our services and achieve efficiency improvements in key elements of our operations. An exemplary case is our deployment of AI in loan collection. Since the launch of our independently developed AI robot in 2019, we have witnessed continuous improvement in operational efficiency of post-facilitations services. For the six months ended June 30, 2022, our AI-powered chatbots handled 65% of our total collection volume, and maintained a 30 day collection rate of approximately 86%.

Over the years, we have equipped ourselves with a large, productive research and development team with a deep IP reserve. As of June 30, 2022, our research and development team represented 36.5% of our total employees. In addition, investment in research and development has consistently been our strategic focus. In line with our revenue growth during the Track Record Period, our research and development related expenses witnessed continual increase at a rate of 40.9%, 35.5% and 58.8% in 2020, 2021 and the six months ended June 30, 2022, respectively, in comparison with their corresponding preceding period. Our creativity and continuous pursuit in technology innovations has crystalized into a large portfolio of patents and other intellectual properties. As of June 30, 2022, we had 68 registered patents, 900 patents pending approval, and 66 registered software copyrights in China.

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Robust credit assessment capabilities repeatedly validated by the market

We pride ourselves with market validated credit assessment capabilities, which make us a highly competitive player in the consumer Credit-Tech market. Our AI-powered Argus Engine assesses risks spanning the loan lifecycle, including fraud detection, credit profiling and post-facilitation services. In addition, tailored to SMEs, we have specifically built an enterprise edition of the Argus Engine. The system takes a full review of business records, tax data, invoice data, supply chain and other miscellaneous information to evaluate the risk profiles of SMEs. Furthermore, our real-time graph engine can efficiently identify various risk factors of prospective borrowers. As of June 30, 2022, the real-time graph engine was in the fourth generation with more than 2 billion nodes and 58 billion edges. It conducts approximately 120 million times online calculations on a daily basis. We also have in place a highly functioning risk-based pricing system, our Cosmic Cube Pricing Model, which applies the borrowers' risk profiles, interest rate sensitivities and other market factors to establish more competitive pricing terms for loan products. Such robust credit analysis systems collectively bring forth more affordable credit lines to borrowers while delivering improved risk-adjusted returns to financial institution partners.

Our preemptive risk awareness and powerful risk analysis capabilities enable us to achieve superior asset quality of the loan portfolios while maintaining our steady growth trajectory. For example, benefiting from Argus Engine's credit profiling capabilities which enable us to effectively identify prospective borrowers with good credit standing, we were able to promptly carry out various adjustments to our services with a focus on improving credit assessment and collection at the beginning of the COVID-19 pandemic and during several regional outbreaks of COVID-19 variants, including strategically filtering borrowers who have a relatively high likelihood of falling delinquent and proactively communicating with our financial institution partners to consider amending the terms of the loan repayment period for certain borrowers who were unable to make prompt repayment due to the adverse impact of COVID-19. These adjustments enabled us to not only overcome the challenges caused by the adverse impact of COVID-19, but also reinforce our strengths in the industry. With leading credit assessment capabilities, we have maintained one of the lowest delinquency rates among our peers in the industry during the Track Record Period, according to iResearch.

Multichannel and efficient user acquisition with a broad user base

Our user acquisition capabilities enable us to acquire users across all online life and business scenarios, with which we have built a broad user base. Moreover, we are the pioneer in the industry to deploy Real Time Advertising Programing Interface Data Management Platform (RTA-DMP) in user acquisition, which draws on AI technology to effectively identify our target users while maintaining reasonable borrower acquisition costs.

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In addition, capitalizing on our advanced risk analysis and user profiling capabilities, we are chosen by many leading online platforms with heavy user traffics to cooperate under "embedded finance" model. See "– Strong technology and innovation capabilities." As of June 30, 2022, we had cumulatively partnered with 34 online platforms with consumption scenarios and embedded finance has become an important user acquisition channel.

We have also engaged an on-the-ground sales force, mainly consisting of over 2,600 third-party relationship managers in 97 cities in China, as of June 30, 2022, to expand our reach to certain type of targeted users with more sophisticated credit demands, which are more suitable to convert offline. These third-party relationship managers primarily conduct offline marketing activities to attract prospective borrowers including SMEs, such as participating in activities organized by financial institutions for high quality borrower acquisition.

Drawing on our ability to acquire users both online and offline, our diverse product and service offerings and our improvement of cost-efficiency in user acquisition, we have constructed a broad user base. As of June 30, 2022, we had accumulated 41.3 million users with approved credit lines and facilitated loans to 25.6 million borrowers. Furthermore, beginning in late 2020, we started to enter the SME Credit-Tech market, taking another step to expand our user base. Our broad and diverse user base avails us of multiple levers across consumption and business scenarios and avenues for services and monetization.

Diversified funding sources supported by a broad network of financial institution partners

We have established long-term relationships with many financial institutions in China. Our financial institution partners enjoy the benefit of selecting from a wide range of technology solutions and flexible commercial arrangements offered by us that best fit their needs. Our offerings empower these financial institution partners to extend their services to borrowers who were unserved or underserved by conventional financial products or services, and to achieve improved risk-adjusted returns. Leveraging our prudent and diverse service models, strong data analytics, technology-driven credit assessment capabilities and deep insights into the rapidly evolving Credit-Tech industry in China, we had forged long-term relationships with 133 financial institution partners cumulatively as of June 30, 2022, which included national and regional banks and consumer finance companies.

Our broad, diverse and sustainable network of financial institution partners provides us steady and relatively low-cost source of funding with wide geographical coverage. For the year ended December 31, 2021 and the six months ended June 30, 2022, financial institutions accounted for 100% of our total funding. With sufficient and strong funding commitment from our financial institution partners, we have the flexibility to recommend suitable products to borrowers with different combination of funding sources depending on the market conditions.

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Our strategic partnership with Kincheng Bank further solidifies our funding advantage. Kincheng Bank is one of the three private banks with an internet company as its largest shareholder in China, according to iResearch. As of June 30, 2022, Kincheng Bank contributed approximately RMB32.0 billion to our outstanding loan balance, making it one of our primary financial institution partners in the network. Our relationship with Kincheng Bank ensures a steady stream of funding. Such strategic collaboration also gives us the opportunities to explore innovative approaches to funding partnership. For example, from time to time, we launch more creative product options and commercial models with Kincheng Bank to gain valuable insights. The implementation of such insights when we offer similar products and terms to broader collaboration with other financial institution partners empowers us to achieve distinct advantage in the industry.

In addition, we have been exploring alternative funding initiatives, which include standardized capital instruments such as the issuance of ABSs. As of June 30, 2022, we had issued RMB14.0 billion ABSs cumulatively to diversify our funding sources and further lower our funding cost.

Experienced management team and entrepreneurial company culture

Our core management team is equipped with extensive knowledge of technology and finance, broad technical background and strong execution skills. Our chief executive officer, Mr. Haisheng Wu, has over 14 years of experience overseeing internet product management and operations. Led by the distinguished key personnel, we have assembled a management team with a diversity of skills and experiences across technology, financial services, risk analysis, regulation and data science. With our management team's risk and technology focused mindset and prudent operational approach, we were able to grow our business quickly and ascend in the consumer Credit-Tech market through every stage of the economic cycle.

We pride ourselves with unique and entrepreneurial culture, demonstrated by our close attention to user demand as well as our commitment to creating an open-minded and vigorous work environment that fosters innovation. Backed by such culture, we devote ourselves to the optimization of our products, services and technologies and the enhancement of efficiency in decision-making and strive to maintain our market position.

OUR GROWTH STRATEGIES

We intend to pursue our mission and vision and grow our business by pursuing the following strategies.

Further penetrate the consumer Credit-Tech market

We plan to continue converting internet users with strong credit profiles and relatively low delinquency risks into users of our platform under the evolving regulatory landscape. In achieving this objective, we expect to optimize our user acquisition through innovations and the development of technologies that further improve our risk analysis capabilities, while

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leveraging our user insights. Moreover, targeting at our broad user base, we plan to develop more diversified loan products in collaboration with our financial institution partners. We also intend to optimize our “embedded finance” model to strategically strengthen our partnerships with leading online platforms with heavy user traffic and enhance our efficiency in user acquisition across our partner network. In addition, we plan to increase our online advertising effort to reach more potential users.

Advance our technology and risk management empowerment capabilities

Aiming to accomplish more effective and targeted user acquisition, more optimized user experience and more efficient operations, we will continue to develop and enhance our technology infrastructure and systems. In particular, we intend to continually refine our AI-driven data analytics and other advanced technologies, and hone the profiling precision and automation of our proprietary platform. We plan to persist in fine-tuning our Argus Engine and Cosmic Cube Pricing model, and further upgrading our algorithms in data analytics, thereby refining our credit assessment and pricing for consumers as well as SMEs from precision and efficiency standpoints. Accompanying the growth of our total loan facilitation volume, we will utilize our data insights to enhance the automation and predictive power of our credit profiling models. Furthermore, we will increase our investments in technology infrastructure, systems and talent acquisition and retention.

Further develop our capital-light model and technology solutions

We strive to engage in more collaborations with financial institution partners under the capital-light model and incrementally increase the share of our capital-light model among our offerings. To achieve this objective, we plan to continuously showcase to financial institutions our advanced capabilities in borrower acquisition, risk analysis, pricing efficiency and post-facilitation services. Furthermore, we will keep devoting ourselves to enriching the portfolio of our technology solutions to address more of financial institutions’ needs across the lending process and along their operations. We also endeavor to further modularize our technology solutions and their functions to further enhance our ability to customize services to financial institutions.

Strengthen our partnerships with financial institution partners

We will continue to strengthen our strategic partnerships with Kincheng Bank and expand our collaboration with other financial institution partners, thereby further developing a diverse and sustainable low cost funding network. We plan to collaborate with Kincheng Bank more closely to reinforce our funding advantage by introducing more innovative approaches to funding partnership. In addition, we will continue to incentivize our current and potential financial institution partners to use our platform services and explore more innovative means toward collaboration in areas such as data analytics, credit profiling and modeling, product development and user acquisition in the consumer Credit-Tech and SME Credit-Tech markets.

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Further develop our business in the SME Credit-Tech market

We intend to strategically develop our business in the SME Credit-Tech market while monitoring the macroeconomic environment, by continuing to build on our strengths in user acquisition and credit profiling, empowering traditional financial institutions to smoothly go through the digitalization of their services offered to SMEs. In addition, we plan to continue to employ online marketing channels to achieve deeper market penetration. We also intend to assist our financial institution partners in offering improved financial products and further expand our user base in the SME Credit-Tech market by leveraging our strengths in funding network, data analytics and credit profiling.

OUR SERVICES

We match underserved and unserved users with credit demand to a diversified pool of financial institutions with credit to supply, through both credit-driven services and platform services.

The following table presents our operating data related to credit-driven services and platform services, respectively, for the years ended or as of December 31, 2019, 2020, 2021 and for the six months ended or as of June 30, 2021 and 2022:

	For the year ended/As of December 31,												For the six months ended/As of June 30,							
	2019				2020				2021				2021			2022				
	Loan facilitation volume		Ending balance		Loan facilitation volume		Ending balance		Loan facilitation volume		Ending balance		Loan facilitation volume		Ending balance					
	volume	%	balance	%	volume	%	balance	%	volume	%	balance	%	volume	%	balance	%				
	<i>(in RMB millions, except for percentages)</i>																			
Credit-driven services	171,422	86.1	58,086	80.1	177,234	71.8	62,718	68.1	162,878	45.6	64,720	45.6	75,719	46.6	59,373	50.5	89,004	45.2	67,910	45.1
Platform services	27,649	13.9	14,427	19.9	69,524	28.2	29,357	31.9	194,225	54.4	77,268	54.4	86,882	53.4	58,187	49.5	108,110	54.8	82,580	54.9
Total	199,071	100.0	72,513	100.0	246,758	100.0	92,075	100.0	357,103	100.0	141,987	100.0	162,601	100.0	117,559	100.0	197,114	100.0	150,490	100.0

Credit-driven services

Under the credit-driven services category, we match prospective borrowers with financial institutions and empower financial institutions in borrower acquisition, credit assessment, fund matching, and post-facilitation services. Loan products offered under this line of services are, in most cases, funded by our financial institution partners, with the remainder extended by Fuzhou Microcredit, which is licensed to conduct micro-lending business in China. In both cases, we bear credit risks of the loans. For loans extended by our financial institution partners, we provide guarantees against potential defaults. Such contractual guarantee arrangement is underwritten either by the licensed Consolidated Affiliated Entities, or third-party licensed guarantee companies or insurance companies, to which we may provide back-to-back

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guarantee at their request. With respect to loan facilitation services for loans funded by financial institution partners, we charge service fees directly from our financial institutional partners pursuant to pre-negotiated terms based on the contractual agreements that vary from case to case. Our service fee rate is typically the difference between the loan pricing rate, which is set by the relevant financial institutions, and a fix rate, which is subject to negotiation on a case-by-case basis and will be charged by the relevant financial institutions as their income. For loans funded by Fuzhou Microcredit, we charge borrowers interest fees, which reflects a number of factors including the credit profile of the borrowers, the availability of funding and the associated funding cost, and the tenure of relevant loan products, among others.

Platform services

Our platform services include loan facilitation and post-facilitation services through our capital-light model, intelligent marketing services to financial institution partners under Intelligence Credit Engine, referral services and risk management SaaS. We currently do not take credit risk under platform services. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, loans facilitated under our platform services accounted for approximately 13.9%, 28.2%, 54.4%, 53.4% and 54.8% of our total loan facilitation volume respectively.

Capital-light model

We launched the capital-light model in 2018 with the focus on implementing our strategic transition from a traditional risk bearing loan facilitator to a technology enabler. Under the capital-light model, we facilitate transactions between prospective borrowers and our financial institution partners through a suite of technology-enabled services spanning across the loan lifecycle, including borrower acquisition, technology empowerment in credit assessment, and post-facilitation services such as loan performance monitoring and loan collection. Under the capital-light model, we currently provide limited guarantee to certain collaborating insurance companies in the event of bankruptcy and certain financial institution partners pursuant to their internal requirements. As of June 30, 2022, the outstanding loan balance under capital-light model for which we provide guarantee services was RMB1.4 billion, representing 2.6% of our total outstanding loan balance under capital-light model as of the same date. Given the nature of such guarantee arrangements and the our assessment that the likelihood of bankruptcy to occur with respect to the insurance companies is remote, we believe that such credit risks that we may take under the platform services are negligible. For loans facilitated under the capital-light model, we generate income through service fees charged to financial institution partners according to pre-negotiated terms that vary from case to case. Our service fee rate is typically a certain percentage of the pricing rate that is set by the relevant financial institution partners on the loans to borrowers. As of June 30, 2022, we had cumulatively worked with 56 financial institution partners under the capital-light model.

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Intelligence Credit Engine (ICE)

ICE is an open platform that offers financial institution partners intelligent marketing services. For loans facilitated through ICE, we match prospective borrowers with financial institution partners based on comprehensive data analysis and cloud computing technologies, and assist financial institution partners with preliminary credit screening of borrowers, but do not provide advanced credit assessment. We earn pre-negotiated service fees from financial institution partners and do not bear credit risks. Our service fee rate is typically a certain percentage of the pricing rate that is set by the relevant financial institution partners on the loans to borrowers, and the service fee rate is subject to negotiations with the relevant financial institution partners and varies from case to case.

Referral services

Because different financial institution partners prescribe different metrics assigned with various values in granting credit line approvals to prospective borrowers, sometimes, some users fail to match the criteria of, and thereby are not accepted by, our financial institution partners. However, such borrowers may still be within the target borrower group of other online lending companies. To offer better user experience to our users and maximize the value of user traffic on our platform, we provide referral services primarily to other online lending companies in line with industry practice and earn referral fees. We consider referral services to be supplemental in nature to our loan facilitation services. The scale of this line of services is relatively small, and referral fees generated from it fluctuates significantly from period to period.

Risk Management SaaS

In 2020, we began to offer financial institutions on-premise deployed, modular risk management SaaS. Integrated with our credit assessment insights and algorithms as well as other proprietary technologies, our risk management SaaS helps financial institution partners acquire borrowers and improve credit assessment results. Under this model, we typically take technology service fees or consulting fees for the corresponding technology solutions elected by the financial institutions.

In terms of accounting treatments, under credit-driven services, we either provide guarantees for loans funded by financial institution partners, which are recorded as off-balance sheet loans, or fund loans through trusts and ABSs or Fuzhou Microcredit, which are record as on-balance sheet loans. Under platform services, all loans facilitated through our platform are recorded as off-balance sheet loans. We have a large balance of guarantee liabilities during the Track Record Period, as we provide guarantees under credit-driven services. We also have a large balance of accounts receivable and contract assets as well as financial assets receivable during the Track Record Period, mainly arising from off-balance sheet loans, as well as loans receivable, mainly arising from on-balance sheet loans. We have established an evaluation process designed to determine the adequacy of our impairment allowances and guarantee liabilities, and an allowance for uncollectible receivables and contract assets based on

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estimates that incorporate historical delinquency rate by vintage and other factors surrounding the credit risk of specific underlying loan portfolio. However, actual losses and credit risk are difficult to forecast. For more details, see “Risk Factors – Risks Related to Our Business and Industry – We need to engage guarantee companies to provide credit enhancement or additional comfort to our financial institution partners, and we recognize guarantee liabilities for accounting purposes. If we fail to source and engage a guarantee company to our financial institution partners’ satisfaction at a reasonable price, our collaboration with our financial institution partners will deteriorate, and our results of operations may be adversely and severely impacted. If our guarantee liability recognition fails to address our current status, we may face unexpected changes to our financial conditions”, “Risk Factors – Risks Related to Our Business and Industry – We are subject to credit risks associated with our accounts receivable, contract assets, financial assets receivables and loans receivable” and “Financial Information – On-and Off-balance Sheet Treatment of Loans.” In terms of revenue recognition, we recognize financing income from on-balance sheet loans over the lifetime of the loans using effective interest method. For the off-balance sheet loans funded by financial institution partners, we recognize revenue from loan facilitation services, revenue from post-facilitation services and revenue from guarantee services (only applicable to off-balance sheet loans facilitated under credit-driven services). Please refer to “Financial Information – On-and Off-Balance Sheet Treatment of Loans” and “Financial Information – Key Line Items And Specific Factors Affecting Our Results of Operation – Net revenue” for details. 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.

	As of December 31,						As of June 30,			
	2019		2020		2021		2021		2022	
	<i>Outstanding</i> <i>Loan Balance</i>	<i>%</i>	<i>Outstanding</i> <i>Loan Balance</i>	<i>%</i>	<i>Outstanding</i> <i>Loan Balance</i>	<i>%</i>	<i>Outstanding</i> <i>Loan Balance</i>	<i>%</i>	<i>Outstanding</i> <i>Loan Balance</i>	<i>%</i>
	<i>(RMB in millions, except for percentages)</i>									
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

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Products offered to users

Our core product offered to users is an affordable, digital revolving line of credit allowing multiple loan drawdowns, with a convenient application process and flexible loan tenors. Our products are provided under the 360 Jietiao brand.

The following graphic illustrates the user interface of our 360 Jietiao app.



Our engagement with prospective consumer borrowers begins with a credit application which typically takes a few minutes. Once approved by our financial institution partners, a prospective borrower is granted a line of credit, typically with a principal amount ranging from RMB1,000 to RMB200,000, for drawdowns based on specific needs with an amount typically between RMB500 and RMB200,000. Prospective borrowers with good credit standing may be granted a higher credit line of up to RMB300,000 for different consumption needs. The average single drawdown amount for consumer borrowers for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022 was RMB4,360, RMB5,303, RMB5,781 and RMB7,707 (US\$1,151), respectively. When an approved borrower makes a drawdown

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request, we perform preliminary credit assessment on such borrower to ensure his or her continued qualification for drawdown before the request is transmitted to our financial institution partners for independent final risk assessment and loan disbursement approval. Once a drawdown is approved, a borrower may elect a loan tenor best suited for his or her financial needs, in fixed terms of one month, three months, six months, twelve months, eighteen months, twenty-four months or thirty-six months, to be repaid in monthly installments. In the instance where we provide guarantee services, the guarantee services are provided throughout the loan tenor. We are also offering other payment terms such as repayment at any time with a fixed daily interest within one or two months. There is no interest-free period, but we may offer interest-free coupon in certain limited cases as promotional activities to promote borrowers' interactions with our platform. The average outstanding balance for each consumer borrower for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 was approximately RMB8,278, RMB12,148, RMB15,432 and RMB16,142 (US\$2,410), respectively.

Aiming to serve credit needs of SMEs and address their unique risk profiles, we introduced 360 SME (“小微贷”) under the 360 Jietiao brand in late 2020. Currently, our 360 SME portfolio consists of three products, including e-commerce loans, enterprise loans and invoice loans, which offer a line of unsecured credit with high limit and flexible loan tenors targeting credit demands of SMEs in different business settings and at different stages of business development. Depending on the product type, SME borrowers will be granted a credit line typically with a principal amount ranging from RMB20,000 to RMB1,000,000, for drawdowns based on specific needs with an amount typically between RMB500 and RMB1,000,000. The average single drawdown amount for SME borrower for the year ended December 31, 2021 and the six months ended June 30, 2022 was RMB19,023 and RMB23,245 (US\$3,470), respectively. Once a drawdown is approved, a borrower may elect a loan tenor in fixed terms of one month, three months, six months, twelve months, eighteen months, twenty-four months or thirty-six months, to be repaid in monthly installments. In the instance where we provide guarantee services, the guarantee services are provided throughout the loan tenor. We are also offering other payment terms such as repayment at any time with a fixed daily interest within one or two months. There is no interest-free period, but we may offer interest-free coupon in certain limited cases as promotional activities to promote borrowers' interactions with our platform. The average amount of approved credit lines for each SME borrower for the year ended December 31, 2021 and the six months ended June 30, 2022 was approximately RMB76,731 and RMB73,826 (US\$11,022), respectively.

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The table below presents the number of consumer borrowers and key features of loans for our consumer borrowers during the Track Record Period.

	For the Year ended December 31,			For the Six Months ended June 30,
	2019	2020	2021	2022
Number of Borrowers ⁽¹⁾				
(in millions)	11.6	9.9	10.2	5.3
Typical Drawdown Amount	500~	500~	500~	500~
(in RMB)	200,000	200,000	200,000	200,000
Average Single Drawdown				
Amount ⁽²⁾ (in RMB)	4,360	5,303	5,781	7,707
Typical Loan Tenor (months)	1~24	1~24	1~36	1~36
Average Loan Tenor				
(months)	7.9	9.7	10.3	11.2
Nominal APR ⁽³⁾	16.6%	15.3%	15.0%	12.9%
Effective APR ⁽⁴⁾	28.8%	27.2%	26.0%	23.0%

Notes:

- (1) “Number of Borrowers” refers to the number of borrowers who made at least one loan drawdown during the specified period.
- (2) Average single drawdown amount data excludes (i) loans facilitated under risk management SaaS, for which we do not have the relevant information of the number of borrowers and incidences of their drawdowns as these are loans approved and managed by our financial institution partners themselves, and (ii) v-pocket product, which is a virtual credit card product that allows for multiple, frequent and small-amount drawdowns and which does not represent the typical and representative loan products offered through our platform. The data for 2019 and 2020 also exclude loans facilitated under ICE which represented a relatively small portion of total loan facilitation volume and hence were not included in the average drawdown amount calculation for our business monitoring purpose.
- (3) The annualized rate for borrowing, calculated by the average monthly payment of all-in interest costs and other fees paid by borrowers, divided by the initial loan facilitation amount, multiplied by 12. The nominal APR data excludes loans facilitated under risk management SaaS and ICE.
- (4) Effective APR data for 2021 and 2022 are calculated through the IRR methodology, while those for 2019 and 2020 are not. The PBOC only disclosed the official IRR calculation methodology in March 2021 and we are not able to trace the IRR metric in 2019 and 2020. The effective APR for 2021 and 2022 is the annualized internal rate of return, or IRR, at which the net present value of all ordinary cash outflows (e.g., the principal of loans) and ordinary cash inflows (e.g., the principal repayment, the interest income, the loan facilitation service fees, and other income) from a loan or a group of loans equals zero, assuming all the cash inflows other than interest income are received at the beginning of the period. The effective APR for 2019 and 2020 is calculated as nominal APR divided by the loan duration and multiplied by the loan tenor. The effective APR data excludes loans facilitated under risk management SaaS and ICE.

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The table below presents the number of SME borrowers and key features of loans for our SME borrowers during the Track Record Period.

	For the Year ended December 31, 2021	For the Six Months ended June 30, 2022
Number of Borrowers ⁽¹⁾ (in millions)	0.4	0.3
Typical Drawdown Amount (in RMB)	500~ 1,000,000	500~ 1,000,000
Average Single Drawdown Amount ⁽²⁾ (in RMB)	19,023	23,245
Typical Loan Tenor (months)	1~36	1~36
Average Loan Tenor (months)	14.0	14.1
Nominal APR ⁽³⁾	14.5%	13.9%
Effective APR ⁽⁴⁾	23.8%	22.6%

Notes:

- (1) “Number of Borrowers” refers to the number of borrowers who made at least one loan drawdown during the specified period.
- (2) Average single drawdown amount data excludes loans facilitated under risk management SaaS, for which we do not have the relevant information of the number of borrowers and incidences of their drawdowns as these are loans approved and managed by our financial institution partners themselves.
- (3) The annualized rate for borrowing, calculated by the average monthly payment of all-in interest costs and other fees paid by borrowers, divided by the initial loan facilitation amount, multiplied by 12. The nominal APR data excludes loans facilitated under risk management SaaS and ICE.
- (4) The effective APR for 2021 and 2022 is the annualized internal rate of return, or IRR, at which the net present value of all ordinary cash outflows (e.g., the principal of loans) and ordinary cash inflows (e.g., the principal repayment, the interest income, the loan facilitation service fees, and other income) from a loan or a group of loans equals zero, assuming all the cash inflows other than interest income are received at the beginning of the period. The effective APR data excludes loans facilitated under risk management SaaS and ICE.

Total loan facilitation volume made through our platform in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022 was RMB199.1 billion, RMB246.8 billion, RMB357.1 billion, RMB162.6 billion and RMB197.1 billion (US\$29.4 billion), respectively. The outstanding balance of all loans made through our platform increased from RMB72.5 billion as of December 31, 2019 to RMB92.1 billion as of December 31, 2020, to RMB142.0 billion as of December 31, 2021, and further to RMB150.5 billion (US\$22.5 billion) as of June 30, 2022. The average contractual tenor of loans facilitated in 2019, 2020, 2021 and the six months ended June 30, 2022 was 7.9 months, 9.7 months, 10.6 months and 11.5 months, respectively.

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In terms of the performance of the loans, the 30 day+ delinquency rate for all loans facilitated through our platform, including those under credit-driven services and platform services, was 2.8%, 2.5%, 3.1% and 4.4% as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The 90 day+ delinquency rate for all loans facilitated through our platform, including those under credit-driven services and platform services, was 1.3%, 1.5%, 1.5% and 2.6% as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. For more details, please refer to “– Credit Assessment – Our credit performance.”

OUR SERVICE PROCESS AND OPERATION FLOW

With the focus on empowering financial institution partners and serving consumers and SMEs, our platform offers services covering the entire loan lifecycle. In particular, we set forth below the service process and operation flow for our end-to-end loan facilitation services under credit-driven services, as well as capital-light model and ICE under platform services, which are the three primary models of services we offer. Credit-driven services and the capital-light model follow the same service process and operational flow from credit line approval to loan drawdown, and differ only in the post-facilitation stage, where under credit-driven services in which we bear credit risks, we make guarantee repayments to our financial institution partners if needed. For ICE, as we provide financial institution partners intelligent marketing services, we mainly conduct preliminary credit screening of prospective borrowers during the credit line approval stage, therefore participating in fewer steps in the loan lifecycle than we do under credit-driven services and the capital-light model.

Stage 1: Credit line approval

Step 1: Paperless credit application. For new users, our service journey begins with such users’ registration of an account on our platform by providing us with certain basic information and authorization to collect other information for fraud detection and credit assessment, among others. The credit application process typically takes a few minutes, after which we initiate a user portrait profiling, fraud detection and credit assessment process.

Step 2: Portrait profiling, fraud detection and credit assessment. We deploy the Argus Engine to build a prospective borrower profile for fraud detection and credit assessment. Drawing on our database, AI-enabled credit assessment system, Argus Engine, and understanding through interactions with a broad user base, we are able to develop a more accurate and comprehensive prospective borrower portrait. Once an applicant passes the fraud detection test, we initiate a comprehensive credit assessment and generate a proprietary credit score for the applicant under credit-driven services and the capital-light model, or conduct only preliminary credit screening under ICE. Under credit-driven services and the capital-light model, following credit assessment, our Cosmic Cube Pricing Model formulates initial pricing recommendation to be provided to financial institution partners based on the overall credit profile of prospective borrowers and other market factors. See “– Credit Assessment” for details of the credit assessment process.

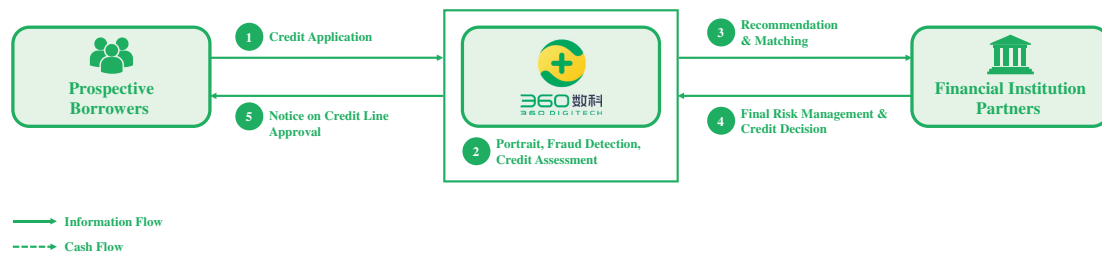
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Step 3: Recommendation and matching. Through our workflow system CloudBank, under both credit-driven services and the capital-light model, we then recommend the prospective borrower's profile along with pricing recommendation to our financial institution partners and share the results of our preliminary credit assessment with them to facilitate their final risk management and credit decision making including loan tenor, approved credit line, and other key terms of a loan product. For ICE, we only recommend prospective borrowers to financial institution partners based on the results of preliminary credit screening, and do not provide pricing recommendations.

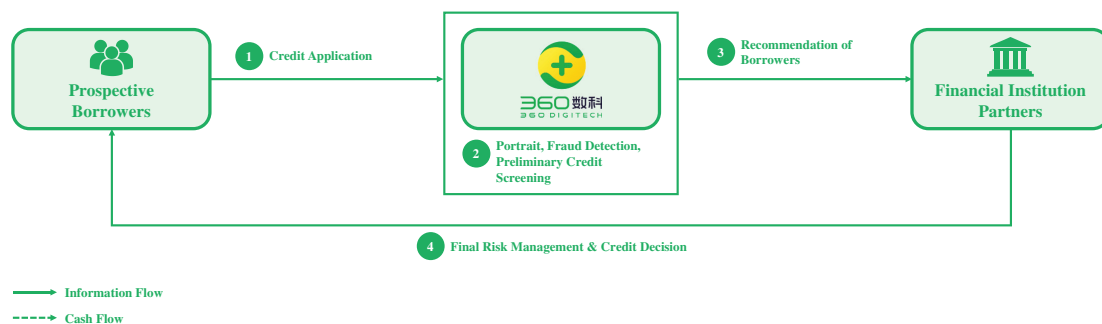
Step 4: Final risk management and credit decision by financial institutions. The financial institution partners conduct final risk management and make their credit decisions based on their respective credit process and regulatory guidelines.

Step 5: Notice on credit line approval. Following their final risk management, each financial institution partner will respond to our workflow system indicating approval or rejection, and in the case of approval, their maximum level of credit exposure. Upon receiving the credit approval decision from financial institution partners, we pass such information to prospective borrowers through our platform.

The diagram below illustrates the step-by-step workflow and transaction process at the stage of credit line approval under the credit-driven service and the capital-light model.



For ICE, as we only recommend prospective borrowers to financial institutions after preliminary credit screening, we do not participate in the credit line approval step, and financial institutions offer their own loan products and directly notify the borrowers of their credit approval decision. The diagram below illustrates the step-by-step workflow and transaction process at the stage of credit line approval under ICE.

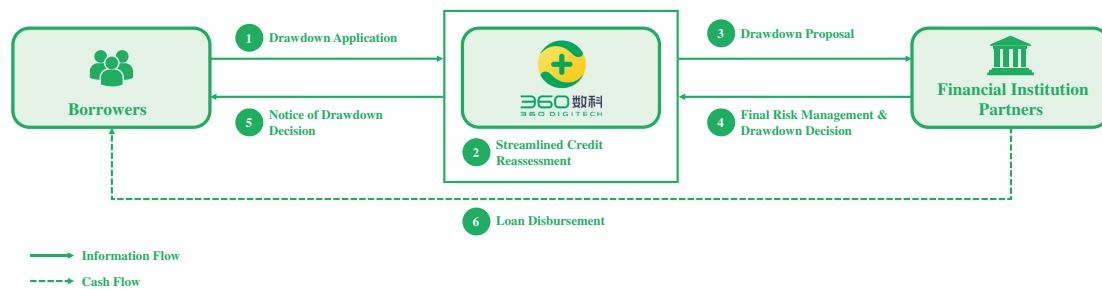


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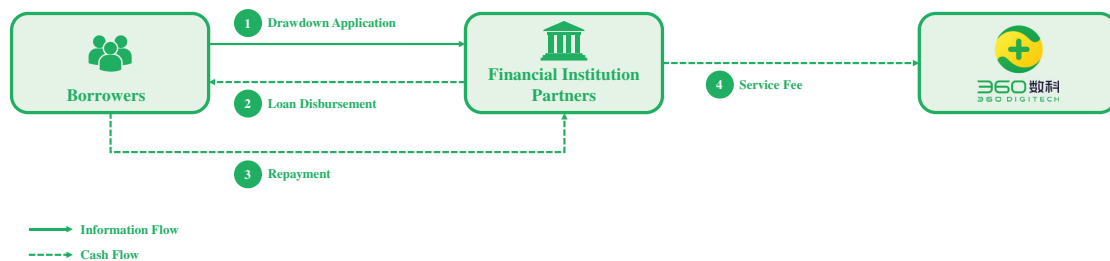
Stage 2: Loan drawdown

Once a credit line is granted, a prospective borrower may request a drawdown at any time, subject to the credit limit approved by the financial institution partner. Upon receipt of a drawdown request, the Argus Engine conducts a streamlined credit assessment to ensure the prospective borrower’s continued qualification for drawdown and notifies our financial institution partners of the drawdown request, which complete their final risk management and reach a drawdown decision. We undertake to notify the borrower the drawdown decision and the financial institution partner that is matched with the borrower will disburse loan to the borrower. Once the principal of the loan is transferred to the borrower, we recognize revenue from loan facilitation services for services provided to the financial institution partner.

The diagram below illustrates the step-by-step workflow and transaction process at the stage of loan drawdown under the credit-driven service and the capital-light model.



For ICE, although the prospective borrower’s drawdown application is made through our platform, the application is directly sent to our financial institution partner through the application programming interface (API) without us processing of the information in any way. The diagram below illustrates the step-by-step workflow and transaction process at the stage of loan drawdown under ICE.

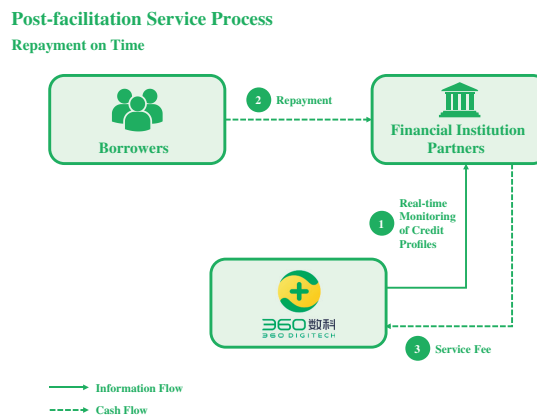


Stage 3: Post-facilitation services: continual credit profile monitoring and collection

Robust data analytics technologies have enabled us to continuously monitor the credit profiles of borrowers. After a borrower makes a loan drawdown, our Argus Engine tracks his or her borrowing and repayment activities, and automatically adjusts such borrower’s credit profile on an ongoing basis. Borrowers typically make repayments to our financial institution partners through third-party payment platforms rather than through our platform, which is a

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common practice in the industry although subject to the specific arrangements between Credit-Tech platforms and financial institutions according to iResearch. We recognize revenues from post-facilitation services on a straight-line basis over the term of the underlying loans. We typically collect pre-negotiated service fees (inclusive of fees for loan facilitation services, post-facilitation services and guarantee service fees, if applicable) from financial institution partners on a monthly basis as borrowers make repayments over the term of the underlying loans. The diagram below illustrates the step-by-step workflow and transaction process at the stage of our post-facilitation services under credit-driven services and capital-light model under platform services for cases where repayment is made on time.

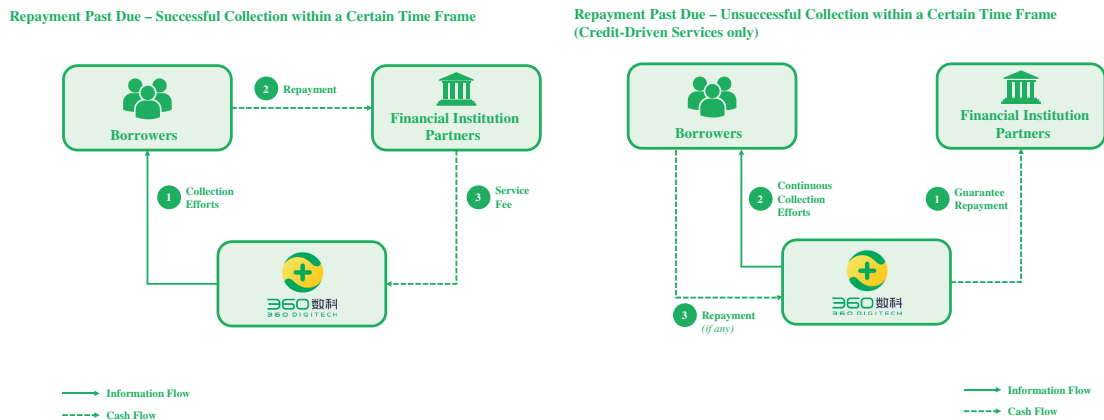


If a loan is overdue, the Argus Engine, together with other robust data analytical algorithms, will automatically prescribe an initial collection approach based on borrower profiles. Based on the analysis results, we will first initiate an AI-driven, automated process, including AI-initiated calls and text messages, for collection of the outstanding amount typically between 1 and 4 days after the loan repayment is due. In-house human collection calls are typically made between 5 and 60 days of loan delinquency, along with other automated collection techniques, subject to adjustments. For details of our collection efforts, see “– Credit Assessment – Collection.” For loans under credit-driven services where we take credit risks, we will make guarantee repayments to the financial institution partners if a loan is past due typically between 30 and 60 days, subject to the terms of the relevant agreements, after which we will retain any repayment made by the borrower. We estimate the amount of guarantee repayments to be made to financial institution partners every month and reserve such funds in advance. In the meantime, we will deploy continuous collection efforts, including outsourcing the collection to third-party collection service providers, to collect the delinquent amount, particularly after 60 days of loan delinquency. After notifying the borrower that fails to make repayment over a certain time frame, the financial institution partners would assign their claims to Fuzhou Financing Guarantee or Shanghai Financing Guarantee (before its financing guarantee license was cancelled upon its voluntary application), each a Consolidated Affiliated Entity, and Fuzhou Financing Guarantee or Shanghai Financing Guarantee, as obligee, shall acquire the relevant rights related to the claims pursuant to the PRC Civil Code. Therefore licensed Consolidated Affiliated Entities have the right to collect direct repayments from the borrowers under relevant PRC laws and regulations. We recognize revenues from guarantee services on a straight-line basis over the term of the underlying loans after the adoption of ASC

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326 in 2020. For loans under the capital-light model where we do not take credit risks, we, or the third-party collection service providers which are involved at a later stage, will continue to make collection efforts in accordance with agreements with the financial institution partners up to a predetermined point in time. Because we take credit risks and provide guarantee services under credit-driven services and currently do not take credit risks under platform services, the gross fees charged under credit-driven services are generally higher than the fees charged under platform services.

The following diagrams display the step-by-step workflow and transaction process of loan collection under the credit-driven services and the capital-light model.



For loans facilitated under ICE, in the first half of 2022, we also provided very limited collection services to assist financial institution partners based on their special requests.

CREDIT DEMAND

User profile

In consumer Credit-Tech market, we target the large and growing Chinese population of users who typically has stable income with promising growth potentials and has greater user lifetime values, but are underserved or unserved by the traditional financial institutions. Prospective borrowers are generally drawn to our platform for supplemental credit solutions.

In the SME Credit-Tech market, our products mainly aim to serve SMEs with an annual operating revenue below RMB5 million, which are typically granted with credit line below RMB1 million. We believe this group of SMEs are unserved or underserved by traditional financial institutions, which typically focus on enterprises with large-scale operations.

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We believe we are chosen by our users because of our reputation as a trusted and reliable platform and the convenient, fast, intuitive and transparent user experience that we offer through our platform. We have established a large base of loyal creditworthy users. The number of our users with approved credit lines increased from 24.7 million as of December 31, 2019 to 30.9 million as of December 31, 2020, to 38.5 million as of December 31, 2021 and further to 41.3 million as of June 30, 2022. Our repeat borrower contribution was 71.8%, 86.5%, 88.1%, 88.5% and 88.1% for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

The following table presents the age breakdown of our users with approved credit lines as of June 30, 2022.

Age	As of June 30, 2022
18-24	22.3%
25-29	24.2%
30-39	36.1%
40-49	14.0%
50+	3.3%
Total	100.0%

User acquisition

We strive to diversify the network for user acquisition, which currently comprises online advertising on channels operated by leading internet companies, “embedded finance” cooperation with online platforms with heavy user traffic, 360 Group, offline promotions and referral programs with other platforms. In the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our acquisition cost per user with approved credit lines was RMB216, RMB138, RMB228 and RMB365, respectively.

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Online advertising

We partner with leading internet traffic platforms to acquire borrowers via online advertising. We are improving our targeted marketing capabilities by leveraging data analytics so that we can place advertisements to intended users who fit into our target borrower profile more effectively. We have also developed analytics algorithms in collaboration with channel partners based on the anonymous user information aggregated from such channel partners so that users of the channel partners with credit needs can be directed to our platform with improved precision and efficiency. We intend to continue optimizing our proprietary AI and data analytics systems and expand the network of channel partners to improve user acquisition efficiency.

Embedded finance model

In 2020, we started cooperating with leading online platforms with heavy user traffic under "embedded finance" model. These platform partners include, among others, leading e-commerce platforms, ride-hailing companies and smart phone companies. Under this model, we embed our credit assessment, data analytics and other proprietary technology solutions within the partnering internet platforms. Therefore, credit services used by end users of our partnering platforms will be ultimately provided by us. Through "embedded finance," we are able to reach more users effectively while empowering our partnering platforms to improve user experience and further unleash the monetization value of their user base. We have become the Credit-Tech service partner of many leading online platforms, gaining access to a large number of internet users across consumption scenarios for potential conversion into borrowers. As of June 30, 2022, we had partnered with 34 leading online platforms cumulatively and embedded finance has become an important user acquisition channel to us.

360 Group channels

Historically, we collaborated with 360 Group in several aspects of user acquisition. Benefiting from the collaboration, which enables our mobile app to be showcased on 360 Group's products' user interfaces, we have been able to connect with 360 Group's user base. In recent years, however, prospective borrowers acquired from 360 Group has contributed significantly less to our business, as our user acquisition channels continue to diversify. In 2019, 2020, 2021 and the six months ended June 30, 2022, 1.54%, 1.03%, 0.21% and 0.10% of the total number of new users with approved credit lines was attributable to our user acquisition collaboration with 360 Group, respectively.

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Offline promotion and borrower referral programs

In the meantime, we conduct offline sales and marketing activities to promote our products and services in specific regions and for specific products. In addition, we continue to acquire new users through borrower referral programs.

CREDIT SUPPLY

We have a stable and diversified base of funding partners. We primarily rely on our financial institution partners, including national and regional banks and consumer finance companies, to fund our credit products. From time to time, we also fund a small percentage of loans through Fuzhou Microcredit. With sufficient and strong funding commitment from our financial institution partners, we have the flexibility to recommend suitable products to borrowers with different combinations of funding sources depending on market conditions. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, financial institutions including Fuzhou Microcredit accounted for 89.4%, 98.8%, 100% and 100% of our total funding, respectively.

The table below sets forth a breakdown of the total loan facilitation volume by funding source for the periods indicated.

	Year ended December 31,						Six months ended	
	2019		2020		2021		June 30,	
	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in millions, except for percentages)</i>							
Financial Institutions	177,999	89.4	243,818	98.8	357,103	100.0	197,114	100.0
Direct disbursement	151,658	76.2	205,790	83.4	316,934	88.8	172,406	87.5
Through trusts	18,129	9.1	24,674	10.0	15,104	4.2	6,785	3.4
Fuzhou Microcredit	390	0.2	2,470	1.0	6,840	1.9	7,451	3.8
ABS	7,821	3.9	10,884	4.4	18,225	5.1	10,472	5.3
P2P platforms	21,072	10.6	2,940	1.2	-	-	-	-
Total	199,071	100.0	246,758	100.0	357,103	100.0	197,114	100.0

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The table below sets forth a breakdown of the loan facilitation volume under credit driven services by funding source for the periods indicated.

	Year ended December 31,						Six months ended	
	2019		2020		2021		June 30,	
	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in millions, except for percentages)</i>							
Financial Institutions	150,350	87.7	174,294	98.3	162,878	100.0	89,004	100.0
Direct disbursement	124,009	72.3	136,266	76.9	122,709	75.3	64,296	72.2
Through trusts	18,129	10.6	24,674	13.9	15,104	9.3	6,785	7.6
Fuzhou Microcredit	390	0.2	2,470	1.4	6,840	4.2	7,451	8.4
ABS	7,821	4.6	10,884	6.1	18,225	11.2	10,472	11.8
P2P platforms	21,072	12.3	2,940	1.7	-	-	-	-
Total	171,422	100.0	177,234	100.0	162,878	100.0	89,004	100.0

The table below sets forth a breakdown of the loan facilitation volume under platform services by funding source for the periods indicated.

	Year ended December 31,						Six months ended	
	2019		2020		2021		June 30,	
	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in millions, except for percentages)</i>							
Financial Institutions	27,649	100.0	69,524	100.0	194,225	100.0	108,110	100.0
Direct disbursement	27,649	100.0	69,524	100.0	194,225	100.0	108,110	100.0
Through trusts	-	-	-	-	-	-	-	-
Fuzhou Microcredit	-	-	-	-	-	-	-	-
ABS	-	-	-	-	-	-	-	-
P2P platforms	-	-	-	-	-	-	-	-
Total	27,649	100.0	69,524	100.0	194,225	100.0	108,110	100.0

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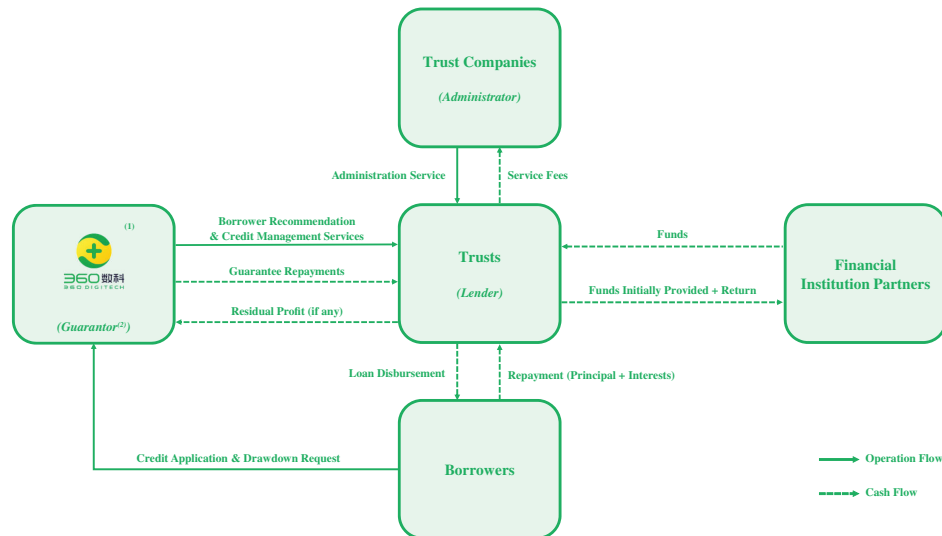
Financial institutions

Our financial institution partners are primarily national and regional commercial banks with lower funding costs, more comprehensive compliance protocol and more stringent credit profiling infrastructures compared with other lenders. As of June 30, 2022, we had established partner relationship with a total of 133 financial institutions cumulatively, including national and regional banks and consumer finance companies, across 26 provinces and autonomous regions of provincial level and 64 cities in China.

In certain special cases and as mutually agreed upon by us and a small number of financial institution partners pursuant to their internal business requirements and procedures, some of the loans facilitated through our platform are funded by and disbursed indirectly through trusts, which also provide us with more flexibility to utilize the funds from the trusts for loan facilitation within the specified time frame and are in line with the industry norms. For such trust arrangements, we are considered having a controlling financial interest in the trusts under U.S. GAAP, because (i) the trusts are designed with the sole purpose to invest in loans facilitated by us and we are the credit management service provider to the trusts, so that we have the power to direct activities that can most significantly impact the economic performance of the trusts, and (ii) we assume variable benefits or losses of the trusts as we are either entitled to receive the remaining distributable profit in the trusts or obligated to repurchase any loans that are delinquent for 30 to 90 days in the trusts. Therefore, we consolidate these trusts' assets and liabilities on our balance sheet. In our consolidated financial statements, cash held by the trusts through segregated bank accounts which can only be used to invest in loans or other securities as stipulated in the trusts are recorded as “restricted cash.” Loans disbursed by the trusts are recorded as “loans receivable” with all service fees charged on the loans recognized as “financing income” over the lifetime of the loans using the effective interest method. Funds provided by external investors are recorded as “payable to investors of the consolidated trusts” with the associated interest expense accrued over the subscription period and included in “funding costs.” As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balance for loans funded by financial institution partners through trusts was RMB6,103 million, RMB1,932 million, RMB3,108 million and RMB2,270 million, respectively.

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The chart below shows the typical structure of the trust arrangements and the roles and obligations of the parties involved, including our Company, financial institution partners, the trusts, trust companies and borrowers.



Notes:

- (1) Our Group also subscribe for the trusts directly in certain cases.
- (2) The Consolidated Affiliated Entities with financing guarantee licenses provide guarantee services to the trusts.

For most of the trusts, financial institution partners will provide the funding, and in certain trusts, we will also subscribe and provide a portion of the funding. As of December 31, 2021 and June 30, 2022, the outstanding balance of the portion of trusts funded by us were RMB2.9 billion and RMB1.2 billion respectively. We provide borrower recommendation and credit management services to the trusts. We also provide guarantee services through the Consolidated Affiliated Entities with financing guarantee licenses, and such Consolidated Affiliated Entities would act as the guarantor and make guarantee repayments to the trusts in case of borrowers’ default. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we provided guarantee services with respect to 76.7%, 54.3%, 49.1% and 72.3% of the outstanding loans funded by trusts. Trust companies are also involved to provide administration services for the trusts and receive services fees directly from the trusts, whereas the trusts will act as the lender and disburse loans facilitated through our platform to borrowers, and therefore in turn, receive repayments, including both loan principal and interests, from the borrowers. During the tenor of the trusts, financial institution partners, as the trust subscribers, will receive returns from the trusts from time to time. Upon expiry of the trusts, financial institution partners will receive repayment of the funds initially provided plus return from the trusts, and in the case where we have subscribed for a portion of the trusts, we will receive the remaining loan assets and/or funds as principal (if applicable) and residual profit (if any).

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The trust arrangements are typically for a term of two years. The typical legal and contractual relationships among the parties involved under the trust arrangements, including our Company, financial institution partners, the trusts and trust companies, are as follows: (i) financial institution partners provide funding to the trust and are entitled to payments of the funds initially provided plus the returns pursuant to trust agreements between financial institution partners and trust companies; (ii) we provide borrower recommendation and credit management services to trusts administered by trust companies pursuant to the loan facilitation collaboration agreements between us and trust companies; (iii) in the instances where we provide guarantee services through the licensed Consolidated Affiliated Entities to the loans funded through the trusts, the licensed Consolidated Affiliated Entities would enter into guarantee service agreements with the trust companies; and (iv) in the instances where we subscribe for a portion of the trusts, the relevant subsidiaries of our Company would enter into trust agreements with trust companies. As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, our operations under the above trust arrangements with our financial institution partners had complied with the applicable existing effective laws and regulations in all material aspects and such trust arrangements are valid, binding and enforceable under PRC laws and regulations.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, funds disbursed by financial institutions through trusts accounted for 9.1%, 10.0%, 4.2% and 3.4% of our total funding, respectively.

The value we add to our financial institution partners includes efficient borrower acquisition through online and offline channels, credit assessment technology empowerment, post-facilitation services and risk-adjusted returns throughout economic cycles, among others. Our technology infrastructure helps enhance financial institution partners' risk management, providing them with a more seamless and real-time risk management experience.

Fuzhou Microcredit

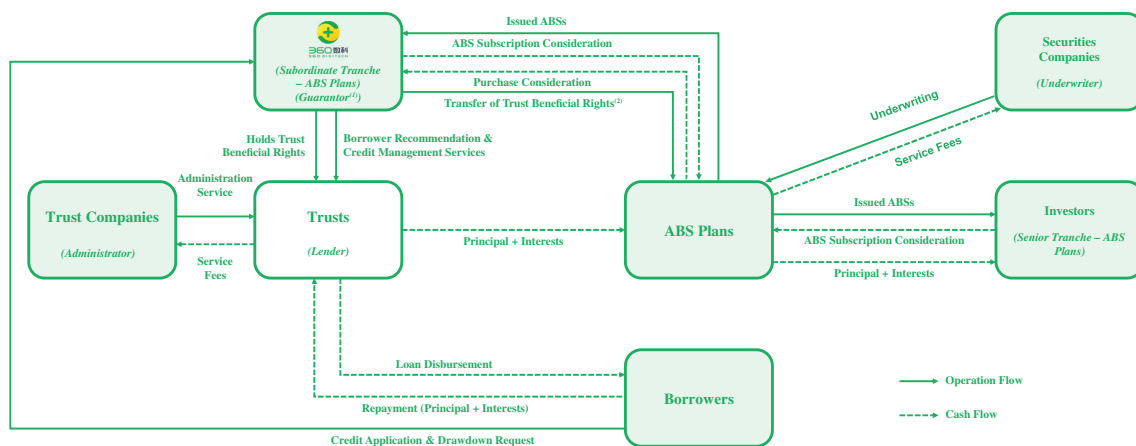
In March 2017, Fuzhou Microcredit was established, which has obtained the regulatory approval and micro-lending license to originate loans. The sources of funding for the loans funded by Fuzhou Microcredit include its registered capital and profits from its operations. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, RMB390 million, RMB2.5 billion, RMB6.8 billion, and RMB7.5 billion (US\$1.1 billion) of credit drawdowns on our platform were funded by Fuzhou Microcredit, representing approximately 0.2%, 1.0%, 1.9%, and 3.8% of our total funding during such period. All loans funded by Fuzhou Microcredit were recorded on our balance sheet. Currently, Fuzhou Microcredit has a registered capital of RMB5 billion, which has been fully paid.

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Alternative funding initiatives

We have explored and expect to continue exploring alternative funding initiatives, which include standardized capital instruments such as the issuance of ABSs. The type of underlying assets in the asset backed special plans (the “**ABS plans**”) includes beneficial rights in trusts and loans receivables. As of June 30, 2022, the expected weighted average return on the underlying assets currently being securitized in all of our outstanding ABS plans, expressed in terms of IRR, was 21.4%. The ABS plans were securitized and the issued ABSs were listed on Shanghai Stock Exchange or Shenzhen Stock Exchange. As we typically held the whole subordinated tranche securities, the ABS were consolidated by us pursuant to U.S. GAAP. As a result, the underlying assets remained as “loans receivable” in our consolidated financial statements, while the senior tranche securities purchased by external investors were recorded as “Payable to investors of the consolidated trusts” with the associated cash flows presented as financing cash flows in the consolidated cash flow statements. Interests paid and accrued on the ABS plans to external investors were recorded as part of “funding costs” within operating costs and expenses.

The typical legal procedures and flow of funds among our Company, trusts, trust companies, ABS plans, underwriters, investors and borrowers in the ABS lending model are summarized as follows.



Notes:

- (1) The Consolidated Affiliated Entities with financing guarantee licenses provide guarantee services to the trusts.
- (2) Alternatively, the trusts transfer the loans receivables to ABS plans.

The legal procedures for ABS issuance typically start with due diligence on the underlying assets by trust companies and other external professional parties, including legal counsel, auditor and rating agency, to ensure compliance with relevant requirements for such issuance. Then, external professional parties will help prepare legal documentations and submit application for ABS issuance to the stock exchanges on which the ABSs are listed. Once the

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ABS plans are set up, securities companies will be involved to provide underwriting services to, and receive service fees from, the ABS plans. Investors will typically subscribe for the senior tranche of the ABS plans and provide most of the funding. In ABS plans, we will subscribe for the subordinate tranche of the ABS plans, thereby providing a portion of the funding. After proceeds are collected from ABS issuances, we would mainly undertake either one of the following arrangements: (i) transfer our primary beneficial rights in a trust specifically set up for the purpose of ABS issuance to ABS plans, or (ii) transfer loans receivable held by a trust specifically set up for the purpose of ABS issuance to ABS plans. Trust companies are involved to provide administration services for the trusts and receive services fees directly from the trusts, whereas the trusts will act as the lender and disburse loans facilitated through our platform to borrowers. Under the first arrangement, borrowers will make repayments of principal and interests to the trust first, which will then transfer the principal and interests to the ABS plans, representing the cash flows generated on the underlying assets. Under the second arrangement, borrowers will make repayments of principal and interests directly to the ABS plans. Upon their expiry, the ABS plans will distribute the principal and interests to investors. During the tenor of the trusts and ABS plans, we continue to provide borrower recommendation and credit management services to the trusts to maintain the quality of the underlying assets, and we also provide guarantee services to the trusts through the Consolidated Affiliated Entities with financing guarantee licenses.

We have been approved to list ABSs in a total value of RMB27 billion on the Shanghai Stock Exchange and Shenzhen Stock Exchange. As of June 30, 2022, we had issued ABSs of RMB14 billion (US\$2.1 billion) with a comprehensive cost of funding less than 6.0%. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, funding contributed through ABS issuance accounted for 3.9%, 4.4%, 5.1% and 5.3% of our total funding.

Peer-to-peer (P2P) platform

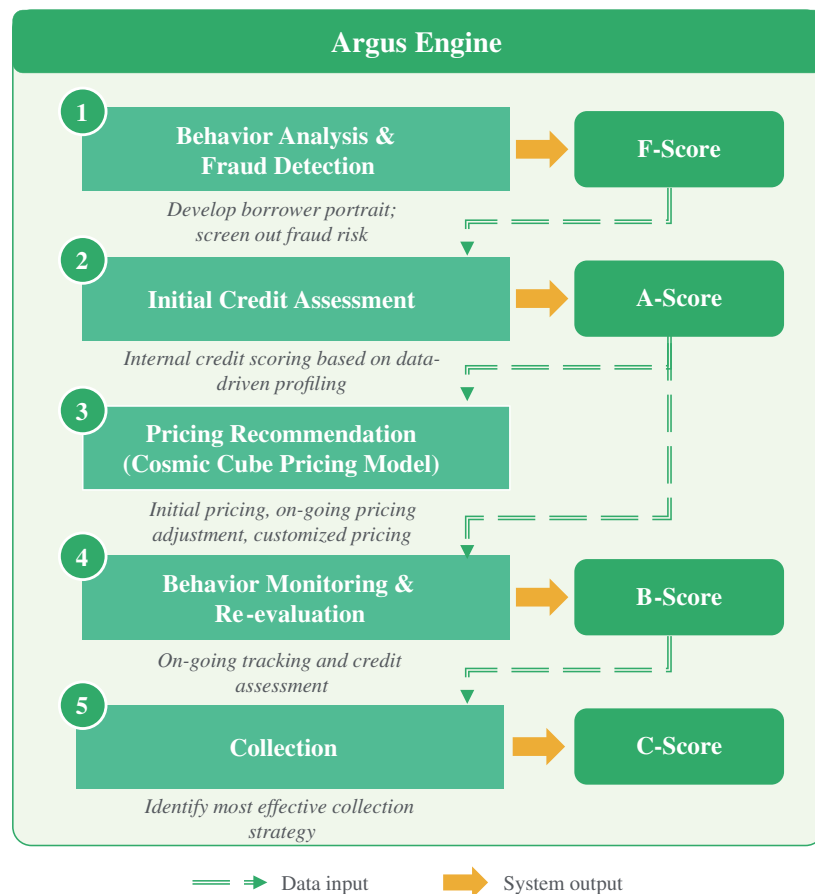
Historically, we used P2P lending platform operated by a subsidiary of Beijing Qibutianxia as a source of funding. In accordance with regulatory requirements, we have ceased our collaboration with the P2P platform since 2021. For the years ended December 31, 2019, 2020 and 2021, funding from the P2P platform accounted for 10.6%, 1.2% and 0% of our total funding, respectively. As advised by our PRC Legal Adviser, our use of P2P lending platform as a source of funding during the Track Record Period had complied with the applicable PRC laws and regulations including Circular 141 in all material aspects.

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CREDIT ASSESSMENT

We believe our industry-leading credit assessment capabilities are a key competitive advantage allowing us to expand our business while maintaining consistently solid asset quality of the loan portfolios. Our credit assessment technology solutions are built upon a comprehensive database, a sophisticated credit profiling engine, and an efficient post-facilitation service process. With our technology empowerment, financial institutions conduct core risk management and credit approval independently to achieve better risk management.

The diagram below shows our credit assessment process, which is further elaborated below.



Comprehensive database

Large volume of high-quality data is a key factor differentiating Credit-Tech platforms. With users' consent to our use of their data, we have developed a comprehensive database comprising a large volume of relevant and reliable information including, among others, a user's credit history, credit lines granted by banks, consumption pattern and past repayment behavior, that are relevant to the assessment of a given user's credit risk against future borrowing. Our database currently covers financial-related information of more than 2 billion devices with 50 billion nodes among themselves, based on which our Company develop over

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200 million effective features, attributes and labels of prospective borrowers. We develop our database and build user profile primarily with our first-hand and proprietary data. Meanwhile, we also partner with third-party data providers to enrich our database of credit information. For example, we have access to People's Bank of China's credit reporting system, which allows us to retrieve and submit data on borrowers' credit profiles.

Credit assessment engine

The success of our business relies on the effectiveness of our credit profiling systems. The "brain" of our credit profiling systems is our Argus Engine. Our Argus Engine integrates user database, AI-powered data analytics, and expert experience based on AI technologies, such as machine learning and deep learning, into comprehensive models. It allows us to effectively recognize and infer the patterns and relationships between information nodes and develop user profiles more accurately without substantial human intervention. For example, our Argus Engine is capable of automatically and continually training its algorithms with data in real life, and iterating and refining the precision of its profiling and decision making across the lifecycle of a loan. In addition, we have equipped the Argus Engine with a number of cutting-edge technologies in the area of AI, including machine learning and deep learning, which enable a more effective screening of fraudulent application and a more precise profile buildup. For example, integrated with visual risk technology under deep learning, our Argus Engine is able to verify the identity of a prospective borrower, denying those applications completed with what it believes to be a false identify, allowing for another layer of effective protection from frauds. For another instance, we have programed large-scale social network (knowledge graph) into our Argus Engine for fraud detection, which empowers us to comprehensively map and reason about connections between our users, and therefore more effectively identify organizational fraudulent behaviors. Leveraging its three core functions of anti-fraud, credit assessment and risk alert, Argus Engine helps us effectively build user profile, conduct overall credit assessment for each prospective borrower and detect frauds, thereby lowering the possibility of loan delinquency.

Behavior analysis and fraud detection

The Argus Engine is deployed to conduct fraud detection and initial credit screening of a prospective borrower, generating an F-Score which is a proprietary metric quantifying potential fraud risks of the borrower. Through our Argus Engine, we seamlessly combine data aggregation with fraud detection capabilities as follows.

- *Identity authentication.* We use facial recognition technology and other tools and processes to verify the identity of a prospective borrower, denying those applications with what we believe to be false identities.
- *Blacklist filtering.* We maintain a real-time list of suspicious devices and accounts referred to as a blacklist and to which we have automated access. We refer to the blacklist as well as fraud records provided by third-party institutions to filter prospective borrowers with high fraud risks.

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- *Telecommunication fraud prevention.* Our anti-telecommunication fraud system integrates black or gray list, AI powered source tracking technologies, as well as real time transaction and risk monitoring models. This system enables fraud prevention across the entire lending process, from pre-facilitation borrower acquisition to post-facilitation services. Its telecommunication fraud prevention mechanism features fraud risk alert, fraud interception and post-fraud feedback.
- *Anti-fraud algorithms.* We filter prospective borrowers through the use of anti-fraud algorithms based on machine learning:
 - we utilize supervised machine learning processes to learn from known fraud behavior patterns, training our algorithms to develop rules to identify similar patterns and deny suspicious applications;
 - we utilize unsupervised machine learning to run anomaly detection to detect individual and aggregated abnormal patterns for the purpose of identifying unknown fraud behaviors; and
 - we conduct a social network analysis, connecting seemingly unrelated factors to often detected fraud schemes. For example, when a new user uses the same mobile device as that of users A and B to access our services, our social network analysis algorithm is able to automatically catch the high correlations that may exist between the new user and the existing users A and B. If users A and B have been flagged by our system due to previous collaborative fraudulent loan applications, and the same mobile device has been identified as owned by the leader of this fraudulent organization, the social network analysis algorithm is able to conclude that the new user is likely to be a member of the fraudulent organization and subsequently direct the new user for manual verification.

Proprietary credit scoring and risk models

When a credit application is deemed to not represent a fraud risk, it is then subjected to the credit assessment module of our Argus Engine. This module will select and analyze variables associated with a given credit application. The variables that the Argus Engine analyzes are selected based on the perceived risk profiles of the applicants. The Argus Engine ultimately generates an A-Score to quantify an applicant's credit profile. Prospective borrowers with higher A-Scores typically receive recommendation for higher credit limits. The A-Score is then directed to the Cosmic Cube Pricing Model for pricing.

We conduct credit assessment each time a new borrower requests a drawdown. A-Score is the result of the initial credit assessment performed on an applicant based on his/her credit profile, considering various factors such as financial condition, education, past credit history and social behaviors. Different from A-Score, B-Score is applied to existing borrowers on our platform with more than three months of borrowing history, by monitoring borrower behaviors,

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such as account, drawdown, repayment, among others. The B-Score replaces the A-Score for the purpose of future credit assessment and re-evaluation. The B-Score is reevaluated each time the borrower applies for a drawdown and at the end of each month. Given that we have high repeat borrower contribution, B-Score, reflecting the latest borrower behavior, plays a relatively more prominent role in our overall credit assessment process.

Based on the B-Score assigned to borrowers, the system adjusts recommendation of their credit line both proactively and in response to the requests made by them. For a given borrower, the request for credit line adjustment can be done no more than once every three months. A typical 15% to 25% increase will be given to the credit line of the borrower if the underlying adjustment is approved.

Each prospective borrower applying for loan products facilitated by us will be assigned into one of the 4 credit score categories based on credit score derived from our credit assessment results. Out of the 4 credit score categories, Level 1 represents the lowest risk and Level 4 represents the highest risk. For ICE and Risk management SaaS services, we do not generate a credit score for the prospective borrowers.

The following table presents loan facilitation volume breakdown by credit score category for the periods indicated for loan products facilitated by us. Against the backdrop of COVID-19 and its impact on the macroeconomic environment and borrowers' ability to repay the loans, we implemented adjustments in our operations, such as optimizing our user base by focusing on higher quality users. As a result, the loan facilitation volume for loan products offered to borrowers in Level 4 decreased from 2019 to 2021, and the loan facilitation volume for loan products offered to borrowers in Level 1 and Level 2 increased from 2019 to 2021.

<u>Credit Score</u>	<u>For the Year Ended December 31,</u>			For the Six Months Ended June 30,
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
	<i>(RMB in millions)</i>			
Level 1	24,824	45,813	79,808	51,209
Level 2	33,771	53,718	88,440	45,749
Level 3	42,028	63,445	95,529	37,958
Level 4	97,223	78,433	76,928	14,012
Null ⁽¹⁾	1,226	5,348	16,397	48,186
Total	<u>199,071</u>	<u>246,758</u>	<u>357,103</u>	<u>197,114</u>

Note:

- (1) Null primarily includes loans facilitated under ICE and risk management SaaS services. In addition, we do not generate a credit score for a few borrowers under limited cases, and the corresponding loan facilitation volume accounted for less than 0.5% of total facilitation volume during the Track Record Period.

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The following table presents average loan tenor (in months) by credit score category for the periods indicated.

Credit Score	For the Year Ended December 31,			For the Six Months Ended June 30,
	2019	2020	2021	2022
Level 1	7.3	8.9	9.6	10.7
Level 2	7.7	9.5	10.5	12.0
Level 3	7.8	9.8	10.9	11.9
Level 4	8.2	10.0	11.3	11.8
Null ⁽¹⁾	8.8	13.1	8.9	11.3

Note:

- (1) Null primarily includes loans facilitated under ICE and risk management SaaS services. In addition, we do not generate a credit score for a few borrowers under limited cases, and the corresponding loan facilitation volume accounted for less than 0.5% of total facilitation volume during the Track Record Period.

The following table presents effective APR by credit score category for the periods indicated for loan products facilitated by us.

Credit Score	Effective APR ⁽¹⁾			
	For the Year Ended December 31,			For the Six Months Ended June 30,
	2019	2020	2021	2022
Level 1	27.9%	26.2%	24.7%	22.1%
Level 2	29.1%	26.9%	25.4%	22.8%
Level 3	28.7%	27.4%	26.0%	23.4%
Level 4	28.9%	27.9%	26.7%	24.4%
Null ⁽²⁾	30.1%	23.8%	23.6%	23.1%

Notes:

- (1) Effective APR data for 2021 and 2022 are calculated through IRR methodology, while 2019 and 2020 are not. The PBOC only disclosed the official IRR calculation methodology in March 2021 and we are not able to trace the IRR metric in 2019 and 2020. The effective APR for 2021 and 2022 is the annualized internal rate of return, or IRR, at which the net present value of all ordinary cash outflows (e.g., the principal of loans) and ordinary cash inflows (e.g., the principal repayment, the interest income, the loan facilitation service fees, and other income) from a loan or a group of loans equals zero, assuming all the cash inflows other than interest income are received at the beginning of the period. The effective APR for 2019 and 2020 is calculated as nominal APR divided by the loan duration and multiplied by the loan tenor. The effective APR data excludes loans facilitated under risk management SaaS and ICE.
- (2) Null primarily includes loans facilitated under ICE and risk management SaaS services. In addition, we do not generate a credit score for a few borrowers under limited cases, and the corresponding loan facilitation volume accounted for less than 0.5% of total facilitation volume during the Track Record Period.

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Real-time risk events monitoring

Leveraging the expansive and complicated relational network of a borrower's financial connections, Argus Engine can extract the most important information from the massive dataset and determine the borrower's credit profile. When a borrower makes an online credit drawdown or application, we need to conduct real-time credit assessment, which necessitates the support of a powerful credit profiling engine. As of June 30, 2022, the real-time graph engine was in the fourth generation with more than 2 billion nodes and 58 billion edges. It provides more than 120 million times online calculations daily, mapping first-degree connections in an average of 10 milliseconds, and second-degree connections in an average of 500 milliseconds. Backed by powerful computation, our real-time screening net can accurately identify risks from group fraud, multiple platform borrowing and default, among others.

Collection

We believe we optimize the collection process for delinquent loans based on the use of a C-Score we assign to each borrower in default using the Argus Engine. The C-Score processes data from historical collection efforts to automatically identify the most efficient channel for collection, including text messages, mobile app push notices, AI-initiated collection calls, human collection calls, emails or legal letters. We initiate the automated collection process typically between 1 and 4 days after the loan repayment is due. In-house human collection calls are typically made between 5 and 60 days of loan delinquency, along with other automated collection techniques, subject to adjustments. We also outsource our collection to third-party collection service providers, particularly after 60 days of delinquency. To fulfill the compliance requirements, we have adopted and enforced comprehensive collection policies and procedures, including close monitoring of our third-party service providers, to ensure that all our collection practices, including in-house and third-party practices, are in compliance with current laws and regulations. First of all, all collection operations, either conducted by our in-house collection team or through third-party agencies, must be processed on our proprietarily developed online operation platform and call-out platform so that we are able to track and perform full-angle inspection on the collection practices. Secondly, all borrower data are subject to a desensitization procedure before they are used for collection. Our system enables a close-loop monitoring over the process of the collection exercise, from case categorization and the desensitization of delinquent borrowers' information to the dispatch of delinquency information to the collection team or third-party collection agencies, as the case may be, and the collection call initiation. It ensures that only the necessary and minimum amount of desensitized data are being used for collection and that no data are able to be saved locally. Thirdly, all manual collection calls, either initiated by our in-house collection team or by third-party agents, are recorded and transmitted to our inspection system for an "AI + manual" dual inspection procedure, where our AI models will perform automatic, preliminary analysis on the content of the collection conversation against the rules that we set, identifying the expressions that are suspected to be deviating from our rules, and our inspection team will then further investigate the cases and provide improvement advice. Fourthly, we maintain real-time inspection on all collection operations. Our system constantly analyzes the real-time recording of the collection calls for potential defects or

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violations. Once a defect or violation is identified, a notice will be promptly sent to the relevant on-site collection supervisor for intervention, so that we are able to proactively de-escalate the situation, prevent violative collections and deliver better user experience. Last but not least, we stipulate into each service agreements with our third-party agencies obligations of such agencies to abide by our policies, comply with laws and regulations, preserve confidentiality, refrain from using excessive or otherwise inappropriate measures. From the beginning of the Track Record Period to the Latest Practicable Date, we have terminated business relationship with certain third-party collection service providers, primarily due to performance reasons, such as relatively low collection rate and cost efficiency in collection, and changes in personnel. According to our third-party collaboration mechanism, we have rights to terminate business relationships with third-party service providers that meet the exit criterion provided therein. In particular, the number of the third-party collection service providers that we terminated business relationship with amounted to 3, 2, 11, 14 in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. The increasing trend in the number of the third-party collection service providers with which we terminated business relationship from 2020 to the six months ended June 30, 2022 was primarily because we expanded the network of third-party collection service providers in 2020 to mitigate the impact of COVID-19 outbreak, and as we adjusted our collection operations against the backdrop of COVID-19 in 2021 and 2022, we gradually terminated the business relationship with the extra third-party collection service providers that did not meet our performance expectations. We do not have any disputes with any of these terminated third-party collection service providers. The terminations did not have any material adverse effect on our business operations.

We have built an AI-powered collection and borrower service system based on automatic speech recognition, text-to-speech and natural language processing technologies. In 2021 and the six months ended June 30, 2022, the application of our AI-powered collection had handled 75% and 65% of our total collection volume, respectively. Our collection system can conduct automatic outbound calls in batches and interact with borrowers. We assess the appropriateness of AI-driven communication, and will adjust the approach and tone of the system, based on the risk level and the type of collection. This assessment is conducted automatically and we leverage the capability for all early-stage notification, contact confirmation and basic collection negotiations, while focusing our collection team on complicated collection cases, or other challenging interactions as identified by our system, to increase our operational efficiency and reduce our collection costs. For the six months ended June 30, 2022, we have maintained a 30 day collection rate of approximately 86%.

Our Credit Performance

We monitor the credit performance of loans facilitated under both credit-driven services and platform services to evaluate and improve our technology services offered to financial institution partners in preliminary credit assessment. We use 30 day+ and 90 day+ delinquency rates as key metrics to evaluate the credit performance of loans. They reflect the loans that are past due between 31 and 180 days and between 91 and 180 days, respectively, as of a specified date. With our strong credit assessment capabilities, we have been able to effectively manage the asset quality of loan portfolios and consistently achieved a relatively low delinquency rate.

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In addition, we view write-off ratio as a supplement to delinquency rates to evaluate the overall credit performance of the loan portfolios as it reflects the net write-off of loans that are past due over 180 days during a given period. We have been able to maintain a relatively low write-off ratio during the Track Record Period. Loans that are written-off and loans under Intelligent Credit Engine and other technology solutions are not included in the delinquency rate calculation. Hence, the delinquency rates and the write-off ratio should be read together to assess our credit performance. For all the loans facilitated for which we provide guarantee services and that are written off due to delinquency for over 180 days, we have made the required guarantee repayments to our financial institutions partners pursuant to the guarantee service agreements and there is no further guarantee obligation for such loans.

The table below summarizes the 30 day+ delinquency rate and 90 day+ delinquency rate for all loans facilitated through our platform, including those under credit-driven services and platform services as of the dates indicated, as well as our write-off ratios for the periods indicated.

	For the year ended/As of December 31,			For the six months ended/ As of June 30,
	2019	2020	2021	2022
30 day+ delinquency rate ⁽¹⁾	2.8%	2.5%	3.1%	4.4%
90 day+ delinquency rate ⁽²⁾	1.3%	1.5%	1.5%	2.6%
Write-off ratio ⁽³⁾	3.7%	5.3%	4.8%	6.5% ⁽⁴⁾

Notes:

- (1) 30 day+ delinquency rate is a percentage, which is equal to (i) the outstanding loan balance of on- and off-balance sheet loans facilitated by our Group that are 31 to 180 calendar days past due, divided by (ii) 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 and other technology solutions are not included in the delinquency rate calculation.
- (2) 90 day+ delinquency rate is a percentage, which is equal to (i) the outstanding loan balance of on- and off-balance sheet loans facilitated by our Group that are 91 to 180 calendar days past due, divided by (ii) 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 and other technology solutions are not included in the delinquency rate calculation.
- (3) Write-off ratio is calculated by dividing (i) net write-off in a given period, which is the total write-off amount less recovered amount, by (ii) the average of beginning and ending balance of gross loans of such period.
- (4) Annualized data for the write-off ratio for the six months ended June 30, 2022.

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The following table presents 30 day+ delinquency rates and 90 day+ delinquency rate by credit score category for the periods indicated for loan products facilitated by us. The extent of risk exposure under different credit score categories is different as shown in the table below. The risk exposure under Level 4 is the highest overall among all credit score categories.

Credit Score	As of June 30, 2022	
	30 day+ delinquency rate	90 day+ delinquency rate
Level 1	0.52%	0.25%
Level 2	0.79%	0.42%
Level 3	1.76%	1.01%
Level 4	20.94%	12.78%
Null ⁽¹⁾	1.20%	0.77%

Note:

- (1) Null primarily includes loans facilitated under ICE and risk management SaaS services. In addition, we do not generate a credit score for a few borrowers under limited cases, and the corresponding loan facilitation volume accounted for less than 0.5% of total facilitation volume during the Track Record Period.

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.

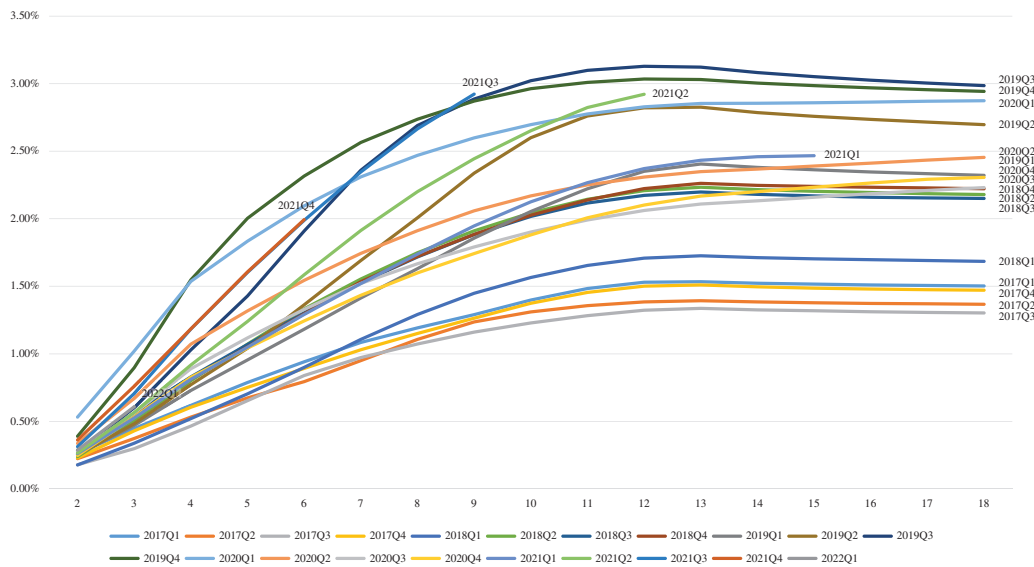
The overall 90 day+ delinquency rate increased from 1.3% as of December 31, 2019 to 1.5% as of December 31, 2020, primarily due to the significant impact of COVID-19 on the asset quality of the loan portfolios in early 2020, despite noticeable improvement in asset quality of the loan portfolios in fiscal year 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.

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Our write-off ratio increased from 3.7% in 2019 to 5.3% in 2020 primarily due to the impact of COVID-19 on the asset quality of the loan portfolios, especially in the first half of 2020 amidst the height of COVID-19 outbreak, and our write-off ratio decreased from 5.3% in 2020 to 4.8% in 2021 primarily because we have resumed normal operations and managed to deliver solid performance in asset quality of the loan portfolios. The annualized write-off ratio for the six months ended June 30, 2022 was 6.5%, compared to 4.8% in 2021, was mainly attributable to the prolonged impact of COVID-19 on the macroeconomic environment, when negatively affected borrowers' ability to repay the overdue loan.

Meanwhile, we also evaluate the healthiness of loans facilitated by us in each fiscal quarter through vintage delinquency rates. The following charts display the historical cumulative 30 day+ vintage delinquency rates and 180 day+ vintage delinquency rates for all loans facilitated by our Group through our platform. Loans under ICE and other technology solutions are not included in the calculation of vintage delinquency rates.

30 Day+ Delinquency Rates by Vintage

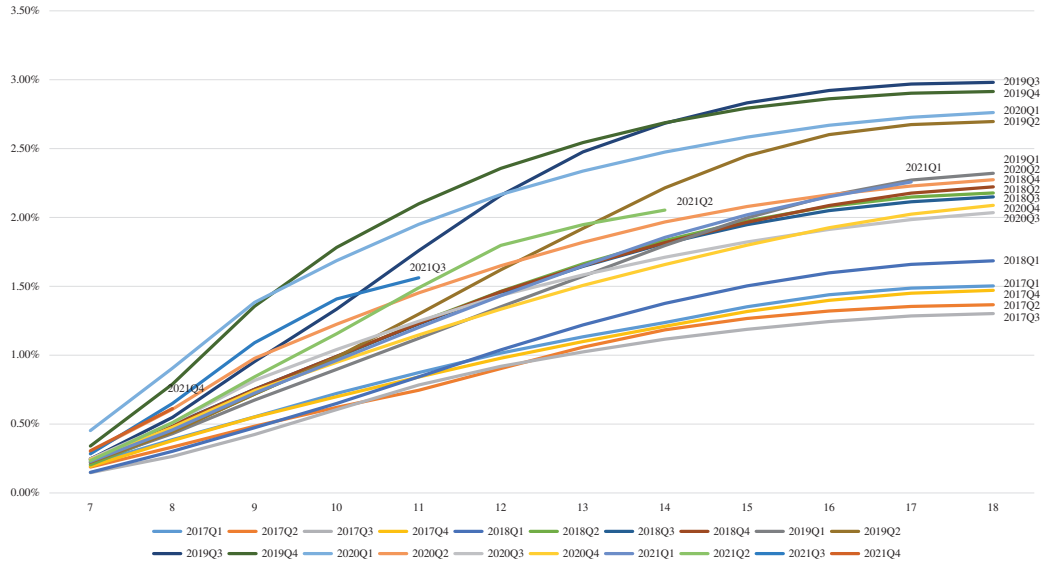


Note:

- (1) 30 day+ vintage delinquency rate is a percentage, which is equal to (i) the total amount of principal for all loans facilitated by our Group in a fiscal quarter that become delinquent for more than 30 days, less the total amount of recovered past due principal for all loans facilitated by our Group that were delinquent for more than 30 days in the same fiscal quarter, divided by (ii) the total initial principal amount of loans facilitated by our Group in such fiscal quarter; loans under Intelligent Credit Engine and other technology solutions are not included in the delinquency rate calculation.

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180 Day+ Delinquency Rates by Vintage



Note:

- (1) 180 day+ delinquency rate is a percentage, which is equal to (i) the total amount of principal for all loans facilitated by our Group in a fiscal quarter that become delinquent for more than 180 days, less the total amount of recovered past due principal for all loans facilitated by our Group that were delinquent for more than 180 days in the same fiscal quarter, divided by (ii) the total initial principal amount of loans facilitated by our Group in such fiscal quarter; loans under Intelligent Credit Engine and other technology solutions are not included in the delinquency rate calculation.

The 30 day+ and 180 day+ vintage delinquency rates for loans that were facilitated in the third and fourth quarters of 2019 were higher than those in the remaining quarters of the Track Record Period, primarily because the lifecycle of loans facilitated during those periods typically covers the entire first half of 2020 amidst the height of the COVID-19 outbreak. As a result, the ability to repay for borrowers that made drawdowns during such periods was adversely affected, leading to an increase in the vintage delinquency rates for loans that were facilitated in the third and fourth quarters of 2019. To mitigate the impact of COVID-19 outbreak, we had implemented various adjustments, such as optimizing our user base by focusing on higher quality users. As a result, the 30 day+ and 180 day+ vintage delinquency rates for loans facilitated in the first quarter of 2020 improved slightly, and the 180 day+ vintage delinquency rates were generally lower for loans facilitated since the second quarter of 2020, compared with those for loans facilitated in the third and fourth quarters of 2019. The 30 day+ vintage delinquency rates were relatively higher in the four quarters of 2021, compared with those in last three quarters of 2020, primarily due to the prolonged impact of COVID-19 on the macroeconomic environment, which negatively impacted borrowers' ability to repay the overdue loans.

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We estimate the default rate of loans on a pool basis by taking into consideration various factors including the historical delinquency rate by vintage. The related provisions and allowances are recorded at loan inception based on the estimated default rate over the entire loan tenure and adjusted in each subsequent reporting period based on update of relevant information including actual credit performance. Therefore, the increase in actual delinquency rate as of June 30, 2022 has been reflected in our current estimate of default rate to arrive at guarantee liabilities – contingent, allowance for loans receivable and related provisions in the consolidated financial statements. If future change in various factors constituting the estimate of default rate result in 0.5 percentage point increase/decrease in the overall estimate default rate for each pool of loans already facilitated as of June 30, 2022, it would result in an increase/decrease of RMB156 million for allowance for loans receivable and provision for loans receivable, RMB613 million for guarantee liabilities – contingent and provision for contingent liabilities. If the estimate of default rate changes further, the amount would change proportionately. Assuming other accounts and balances stay as unaffected, the impact on the net income over the revaluation of provisions for such existing loans would be a decrease/increase of approximately RMB587 million based on an assumed effective tax rate of 15%. In real business world, however, if we notice factors that would increase the overall default rate by such magnitude, we will surely take counter risk measures and accordingly the actual adverse impact on net income is expected to be even less.

PROVISIONS FOR LOANS

We determine provisions for loans based on a number of factors as follows. For on-balance-sheet loans, a valuation allowance is set up based on estimated default rate of loans to reduce the carrying amount of loans receivable. For off-balance-sheet loans where we provide guarantee services, we record guarantee liabilities – contingent to represent our expected net payout when the underlying loans become default. In either cases, the allowance/contingent guarantee liabilities are determined based on the estimated default of underlying loans. See “Financial information – On-and Off-balance Sheet Treatment of Loans” for details of the difference between on-and off-balance sheet loans. We estimate the default rate of loans on a pool basis by taking into consideration the historical delinquency rate by vintage, adjusted by specific risks for loans within each vintage, correlated industrial and macro-economic factors, and other pertinent information such as CPI and delinquent loan collection rate in assessing future performance of the loan portfolio. The historical delinquency rate captures the historical data on the delinquent status of borrowers and time of delinquency. Further, we provide allowance and contingent liabilities based on the estimated collectability over the entire loan tenure at inception of each loan portfolio and adjust in each subsequent reporting period based on update of relevant information. Thus, we do not have separate provision policies for delinquent loans and we charge off loans receivable as a reduction to the allowance for loans receivable when the loan principal and interest are deemed to be uncollectible. The contingent guarantee is reduced by the payouts made by our Group to compensate the investors upon borrowers’ default and revalued at each period end to reflect updated estimation for future net payout.

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DATA AND PRIVACY PROTECTION

We are dedicated to protecting users' privacy, and we have implemented a data privacy and security system to ensure the security, confidentiality and integrity of data. We adopt policies to make sure we obtain users' consent in collecting and using their data. We have promulgated a user privacy policy on our platform, setting forth our data use practices and privacy protection protocols. When a user registers an account via our app, he or she must read through and agree to the privacy agreement before the registration can be completed. Besides, in certain phases of the loan application process that involve data collection or usage, such as activating facial recognition function to facilitate credit assessment and transaction security, our users will be prompted again to read through and agree to separate authorization agreements on our data collection and use practices before they can proceed. We only use the data for the stated purpose as authorized by the user of our app in connection with credit assessment and as otherwise required by applicable laws and regulations. All of our data which we collected and generated from our operations in the PRC are stored in the PRC territory and the data which we recognize as sensitive data are encrypted with the double encryption approach of data encryption and database encryption. We store user data in accordance with applicable laws and regulations, and we have adopted and implemented internal controls system and protocols focused on data security and personal information protection. Our core systems have all passed and been certified as the Level III Protection of the National Information System. We require all of our employees to comply with the protocols, respect the privacy of users, and protect their information. In addition, we limit our employees' access to de-identified information and the output of such credit analysis only (except for key data security personnel whose access is subject to stringent internal approval) for purposes of mitigating the possibility of data leakage and avoiding unnecessary privacy invasion as much as possible.

With rigorous data privacy and security system, in June 2020, our fintech service application, 360 Jietiao, received both the app security certification and the app information security certification from the National Computer Virus Emergency Response Center, or the NCVERC, which is the official agency for anti-virus internet security and designated testing body for the "Special Crackdown on the Illegal Collection and Misuse of Personal Information by Apps" (《關於開展App違法違規收集使用個人信息專項治理的公告》) initiative by the MPS. In particular, 360 Jietiao received a level 3 rating for both app privacy and data security, the highest level granted by the NCVERC. Given the ongoing regulatory environment, the certifications granted to us recognize our core competency in privacy protection and security technology and further solidify our competitive advantage in terms of regulatory compliance.

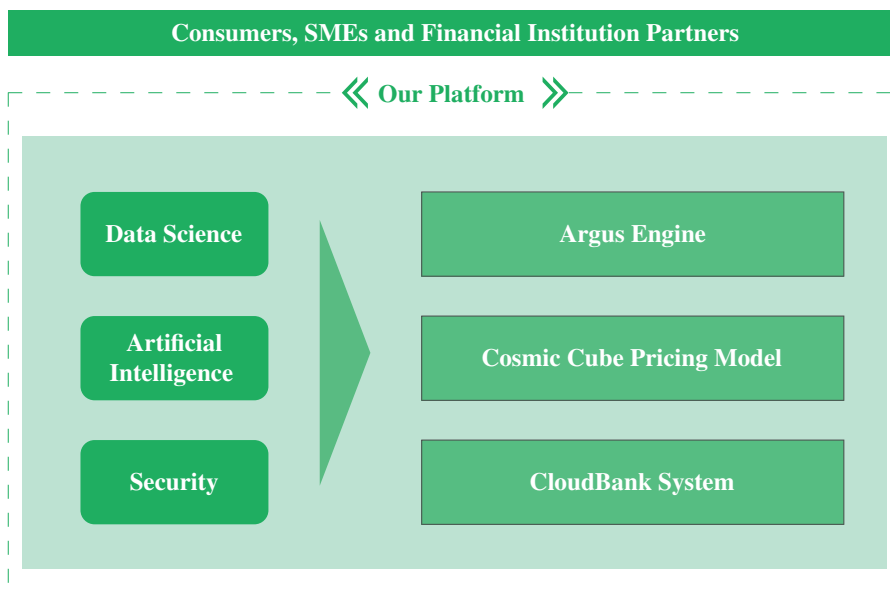
Our commitment to protecting users' privacy also shapes the way we collaborate with others on data insight enhancement for the purpose of credit assessment. For example, we obtain consent from users to use their data insights obtained from third-party sources for credit assessment purposes at the registration stage.

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In the view of our PRC Legal Adviser, our Significant Subsidiaries are in compliance with the requirements of data security and personal information protection provided in the applicable existing effective PRC laws and regulations in material aspects as of the Latest Practicable Date, including the requirements of the Personal Information Protection Law (《個人信息保護法》), Administrative Provisions on Internet Information Service Algorithm-Based Recommendation (《互聯網信息服務算法推薦管理規定》) and the Guidelines on Strengthening the Comprehensive Regulations of Algorithms for Internet Information Services (《關於加強互聯網信息服務算法綜合治理的指導意見》).

TECHNOLOGY & SECURITY

We are a technology-driven company. The success of our business is dependent upon our technological capabilities, which deliver a superior user experience, protect information on our platform, increase operational efficiency and facilitate continued innovation. Our innovation efforts are driven by strong research and development and risk management teams, which accounted for 43.7% of our total employees, as of June 30, 2022.



Principal components of our technology infrastructure include:

- *Data science.* Data science contributes to many elements of our business and operations, extending across an entire loan lifecycle. Our Argus Engine allows us to aggregate and assess thousands of data points to build a comprehensive profile for each user which guides fraud detection, credit assessment and general borrower behavior, useful in anticipating borrowers' needs. Our Cosmic Cube Pricing Model then applies similar data science strategies in establishing pricing. Our workflow system CloudBank is capable of processing millions of transactions every day and integrates with our financial institution partners' systems in loan disbursements, credit decisions, and payment clearances. We have also developed our network

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relationship database with tens of billions of connecting points for fraud detection purpose. The algorithms powering the majority of our decision systems iterate in real-time through machine learning, allowing us to promptly identify and correct operational issues.

- *Artificial intelligence.* We have identified specific applications for AI across our platform, notably around precision marketing, rapid underwriting and post-facilitation services. We consistently upgrade our capabilities through machine learning. For instance, our fraud detection and credit assessment capabilities are based on the self-learning of the Argus Engine, which consistently re-evaluates statistically significant variables and re-develops policies around borrower credit assessment. A key benefit of AI is the automation of many of our processes. We can generally process a credit application from submission through drawdown approval without material human intervention, and our internal preliminary credit assessment mostly only takes less than a minute in accordance with recent IT records, achieving massive operational efficiency. For instance, our AI-powered voice system, which we apply to the collection of delinquent loans, has reduced our collections staff significantly and empowered the remaining staff to be more efficient and effective. Lastly, we are in the process of evaluating applications of blockchain across our business model.
- *Security.* We are committed to maintaining a secure online platform. Our platform benefits from 360 Group's expertise in the area of internet security. Our focus on security provides operational benefits because we believe borrowers are more willing to share sensitive information with us due to our security reputation. Key features of our security system are as follows:
 - Our firewall monitors and controls incoming and outgoing traffic 24 hours per day, and the firewall is updated and trained periodically with mimic attacks from hackers to spot potential loopholes and protect our platform from malware, computer virus and hackings;
 - Our servers are managed by 360 Group's private cloud service and as such are both physically and virtually isolated with intensive security protocols; and
 - All transmission of borrower information is encrypted.

We have also adopted a series of policies on internal controls over information systems and network access management. We maintain redundancy through a real-time multi-layer data backup system to prevent loss of data resulting from unforeseen circumstances. We conduct periodic reviews of our technology platform, identifying and correcting problems that may undermine our system security.

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- *Stability.* We operate on 360 Group's private cloud. Our system infrastructure is hosted in data centers at three separate locations in Beijing and Shanghai. We maintain redundancy through a real-time multi-layer data backup system to ensure the reliability of our network. Our platform adopts a modular architecture that consists of multiple connected components, each of which can be separately upgraded and replaced without compromising the functioning of other components. This makes our platform both highly reliable and scalable.
- *Scalability.* With a modular architecture, our platform can be easily expanded as data storage requirements and user visits increase. In addition, load balancing technology helps us improve the distribution of workloads across multiple computing components, optimizing resource utilization and minimizing response time. Meanwhile, we have built our system in a partner-friendly approach as we provide flexible options to our partners regarding the scope of the data to be provided as well as how the data is provided. With such flexibility, we can cut a considerable amount of time and monetary cost in synchronizing the systems of ours and our partners'. For instance, it typically takes one to two weeks for us to develop our system access to a new partner's system, which is a key selling point when prospective financial institution partners evaluate joining our platform.

MARKETING AND BRAND AWARENESS

We primarily employ and implement variable online sales and marketing methods, supplemented with traditional promotional activities and general brand and awareness building. We focus on building brand awareness through online marketing campaigns, including cooperating with leading online platforms for directing user traffic to our business and boosting public relations as well as other offline advertising. We invest in a series of marketing activities to further solidify our brand image and continue to grow our user base, including collaborating with leading social media, video and live streaming platforms to extend our brand to a broader potential user group.

SEASONALITY

We experience seasonality in our business, mainly correlating to the seasonal fluctuations in internet usage and traditional personal consumption patterns in China. For example, individual borrowers generally reduce their borrowings during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year, due to a reduction of the overall volume of commercial transactions. Furthermore, when e-commerce platforms hold special promotional campaigns, for example, on November 11 and December 12 each year, we typically observe an increase in borrowing proceeds immediately following these campaigns. However, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

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COMPETITION

We currently primarily targets the consumer Credit-Tech market, and compete for borrowers, funding sources and other third-party services with other Credit-Tech platforms with the similar market focus, which mainly include Credit-Tech platforms backed by large internet companies, and independent Credit-Tech platforms that operate standalone platforms without support from traditional financial institutions or large internet companies, according to iResearch. As the macro and regulatory environment evolve in recent years, we have observed dynamic changes in the market landscape. On the one hand, some Credit-Tech platforms backed by internet giants are scaling back their over-leveraged operations, which creates opportunities for other players to fulfill the “spillover” demand. On the other hand, as regulatory compliance becomes increasingly important, smaller and weaker Credit-Tech platforms that lack capabilities to achieve profitability while maintaining compliance are naturally withdrawing from the market, which in turn creates opportunities for us to further strengthen our market position.

In addition, many leading internet and technology companies that possess large user bases, substantial financial resources and high frequency consumption platform entered the consumer Credit-Tech market in the past few years. However, many of them have since scaled back their effort in developing Credit-Tech business by themselves to optimize their strategic priorities. Instead, some leading internet and technology companies choose to partner with leading Credit-Tech platforms like us to help them better monetize their user base with comprehensive financing solutions. Such partnerships are the basis for “embedded finance.”

We believe that our deep understanding of users, robust credit assessment systems, effective user acquisition channels, user-friendly product designs, and broad and diversified funding sources form a substantial competitive advantage over many of our peers. Such competitive advantage, along with our consistent track record of solid execution, also in turn helps us gain trust from financial institutions and strengthen our relationship with business partners. See “Risk Factors – Risks Related to Our Business and Industry – We face increasing competition, and if we do not compete effectively, our operating results could be harmed” and “Industry Overview” for more information about the market where we operate and the competition we face.

INTELLECTUAL PROPERTIES

We regard our trademarks, domain names, software copyrights, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of patent, copyright, trademark and trade secret laws in China, as well as licensing agreements and other contractual protections, to protect our proprietary technology.

As of June 30, 2022, we had 54 registered trademarks and 63 trademarks pending approval in China, 68 registered patents and 900 patents pending approval in China. As of June 30, 2022, we had 66 registered software copyrights and four copyrights of works in China. We are also the registered holder of 43 domain names in China.

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Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. Even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations. See “Risk Factors – Risks Related to Our Business and Industry – We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position” and “Risk Factors – Risks Related to Our Business and Industry – We may be subject to intellectual property infringement claims, which may be costly to defend and may disrupt our business and operations.”

CUSTOMERS AND SUPPLIERS

Our customers

We endeavor to empower financial institutions across different stages of the loan lifecycle with our technology-driven services, whereby delivering to users more accessible credit lines. Our customers primarily consist of financial institutions. In the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, (i) our top five customers accounted for 50.4%, 46.7%, 45.1% and 39.5% of our total revenue, respectively, and (ii) our largest customer, in each period during the Track Record Period, contributed 15.9%, 15.0%, 14.9% and 16.8% of our total revenue, respectively.

The following table sets forth the background information of our five largest customers for each year during the Track Record Period.

Year ended December 31, 2019

Customers	Customer business profiles
Customer A	a city commercial bank with registered office in Nanjing, China
Customer B	a city commercial bank with registered office in Xi’an, China
Customer C	a peer-to-peer lending platform with registered office in Beijing, China
Customer D	a city commercial bank with registered office in Tianjin, China
Customer E	a joint-stock commercial bank with registered office in Shenzhen, China

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Year ended December 31, 2020

<u>Customers</u>	<u>Customer business profiles</u>
Customer B	a city commercial bank with registered office in Xi'an, China
Customer A	a city commercial bank with registered office in Nanjing, China
Customer F	an internet commercial bank with registered office in Beijing, China
Customer G	a trust company with registered office in Nanchang, China
Customer H	a city commercial bank with registered office in Xinjiang, China

Year ended December 31, 2021

<u>Customers</u>	<u>Customer business profiles</u>
Customer F	an internet commercial bank with registered office in Beijing, China
Kincheng Bank	a private commercial bank with registered office in Tianjin, China
Customer B	a city commercial bank with registered office in Xi'an, China
Customer A	a city commercial bank with registered office in Nanjing, China
Customer I	a trust company with registered office in Xining, China

Six months ended June 30, 2022

<u>Customers</u>	<u>Customer business profiles</u>
Customer F	an internet commercial bank with registered office in Beijing, China
Kincheng Bank	a private commercial bank with registered office in Tianjin, China
Customer B	a city commercial bank with registered office in Xi'an, China
Customer J	a rural commercial bank with registered office in Shanghai, China
Customer A	a city commercial bank with registered office in Nanjing, China

Save for Kincheng Bank and Customer C, in each case of which Mr. Zhou, the chairman of our Board, holds no more than 20% interest in the entity, none of our other Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five customers during the Track Record Period. We chose to cooperate with Kincheng Bank considering that Kincheng Bank has stable funding resources and the funding cost it charged was at a reasonable level. For Customer C, similar to Kincheng Bank, it provided stable funding to us at reasonable costs. In addition, cooperation with Customer C is a historical legacy given that funding from other financial institutions in early years of our operating history were relatively limited. All transactions with Kincheng Bank and Customer C during the Track Record Period and up to the Latest Practicable Date were conducted on an arm's length basis comparable to similar transactions we conducted with other customers in which none of our Directors held interests.

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Our suppliers

During the Track Record Period, our top suppliers primarily include (i) service vendors who charge us marketing and promotional service fee; (ii) service vendors who charge us bandwidth service fee and brand fees; (iii) payment processing services providers; primarily service vendors selected based on prevailing market terms.

In the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, (i) our top five suppliers accounted for 40.9%, 16.4%, 27.5% and 40.1% of our total purchases, respectively; and (ii) our largest supplier, in each period during the Track Record Period, contributed 24.4%, 5.4%, 9.1% and 13.1% of our total purchases, respectively.

The following table sets forth the background information of our five largest suppliers for each year during the Track Record Period.

Year ended December 31, 2019

<u>Supplier</u>	<u>Supplier business profiles</u>
Supplier A	an internet promotion company with registered office in Zhoushan, China
Supplier B	an internet promotion company with registered office in Shanghai, China
Supplier C	an internet promotion company with registered office in Tianjin, China
Supplier D	an internet promotion company with registered office in Beijing, China
Supplier E	an internet promotion company with registered office in Shanghai, China

Year ended December 31, 2020

<u>Supplier</u>	<u>Supplier business profiles</u>
Supplier F	an internet promotion company with registered office in Tianjin, China
Supplier G	an internet promotion company with registered office in Beijing, China
Supplier H	a leading digital payment platform with registered office in Shenzhen, China
Supplier I	a digital payment platform with registered office in Shenzhen, China
Supplier J	an internet promotion company with registered office in Beijing, China

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Year ended December 31, 2021

<u>Supplier</u>	<u>Supplier business profiles</u>
Supplier K	an offline promotion company with registered office in Tianjin, China
Supplier L	an internet promotion company with registered office in Beijing, China
Supplier M	a digital payment platform with registered office in Shanghai, China
Supplier N	an internet promotion company with registered office in Beijing, China
Supplier O	an internet security provider with registered office in Beijing, China

Six months ended June 30, 2022

<u>Suppliers</u>	<u>Supplier business profiles</u>
Supplier K	an offline promotion company with registered office in Tianjin, China
Supplier L	an internet promotion company with registered office in Beijing, China
Supplier P	an internet promotion company with registered office in Shanghai, China
Supplier Q	an internet promotion company with registered office in Deyang, China
Supplier O	an internet security provider with registered office in Beijing, China

Save for Supplier K and Supplier O, in each case of which Mr. Zhou, the chairman of our Board, holds no more than 20% interest in the entity, none of our other Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five suppliers during the Track Record Period. We chose services from Supplier K because Supplier K has an established team and network that can provide stable, quality offline promotion and marketing services at reasonable costs. Similarly, we chose Supplier O primarily because it provided us with cloud computing capacity and other technical services at reasonable costs. In addition, as we originally was a subsidiary of 360 Group until our spin-off in 2016, we had been using services from Supplier O, another subsidiary of 360 Group, during our early years. Given the quality of Supplier O's services was high, the price it charged was reasonable and the costs that we may need to incur to switch to another technical service provider, we continue to procure services from Supplier O. All transactions with Supplier K

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and Supplier O during the Track Record Period and up to the Latest Practicable Date were conducted on an arm's length basis comparable to similar transactions we conducted with other suppliers in which none of our Directors held interests.

We believe we have sufficient alternative suppliers for our business that can provide us with substitutes of comparable quality and prices. During the Track Record Period, we did not experience any disruption to our business as a result of any significant shortage or delay in supply.

EMPLOYEES

We had 1,891, 1,643, 2,129 and 2,232 employees as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The following table sets forth the number of our employees categorized by function as of June 30, 2022:

	As of June 30, 2022
Function:	
General and Administrative	188
Operations	755
Products	169
Research and Development	814
Risk Management	161
Sales and Marketing	145
	<hr/>
Total	2,232
	<hr/> <hr/>

As of June 30, 2022, we had 1,029 employees in Shanghai, 373 employees in Beijing, 266 employees in Shenzhen and the rest in other cities and special administrative region in China.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including housing funds, pension, medical insurance and unemployment insurance. We are required under Chinese law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We enter into standard confidentiality and employment agreements with our employees. The contracts with our key personnel typically include a standard non-compete covenant that prohibits the employee from competing with us, directly or indirectly, during his or her employment and for up to two years after the termination of his or her employment. In consideration of our employees' non-compete covenant, we pay compensation to our

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employees at a rate of not less than 30% of the average monthly compensation of the prior 12 months of their employment during the restriction period, provided that, to the extent our rate becomes lower than the minimum standard required by the local government, we will pay in accordance with such standard.

We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. None of our employees are represented by labor unions.

INSURANCE

We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. During the Track Record Period, we did not make any material insurance claims in relation to our business. We also provide social security insurance including pension insurance, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance and housing funds through a PRC government-mandated defined contribution plan for our employees, as required by Chinese laws and regulations. We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese laws and regulation and in accordance with the commercial practices in our industry. However, our insurance policies may not be able to cover all of our losses and we cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies. See "Risk Factors – Risks Related to Our Business and Industry – We may not have sufficient business insurance coverage."

PROPERTIES

Our corporate headquarters is located in Shanghai, where we lease office space with an area of 13,238 square meters as of June 30, 2022. We also lease an area of 2,172 square meters in Hefei, an area of 2,295 square meters in Fuzhou, an area of 1,500 square meters in Shenzhen, an area of 1,000 square meters in Xi'an, an area of 1,855 square meters in Chengdu, an area of 871 square meters in Haikou, an area of 119 square meters in Hong Kong and an area of 5,100 square meters in Beijing as of June 30, 2022. The lease term varies from one year to three years. Our servers are primarily hosted at internet data centers owned by 360 Group and located in Beijing and Shanghai. We believe that we expect to seek additional office space as needed to accommodate future growth.

In October 2020, we established 360 Changfeng, a joint venture company in Shanghai, China, through Shanghai Qiyu, together with Shanghai Changfeng Investment (Group) Co., Ltd., or Changfeng, an independent third party, and Shanghai Jiehu Internet Technology Co., Ltd., or Shanghai Jiehu, a 360 Group entity, to develop and build our 360 East-China regional headquarters and the affiliated industrial park for our future operations. Once completed, the regional headquarter and industrial park will enable us to host all our facilities and employees across departments that currently work on premises in Shanghai to join in the same office space, which we believe will help us further save administrative costs and improve operating

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efficiency. Changfeng, Shanghai Jiehu and we held 30%, 30% and 40% of the equity interests of the entity, respectively. In December 2021, we, through Shanghai Qiyu, entered into an equity transfer agreement with Shanghai Jiehu, pursuant to which Shanghai Qiyu acquired all the 30% equity interests owned by Shanghai Jiehu in 360 Changfeng. Following the transfer, we and Changfeng hold 70% and 30%, respectively, of the equity interests in 360 Changfeng. As of June 30, 2022, shareholders of 360 Changfeng have invested a total of RMB1.0 billion to acquire land use rights of the parcel of land on which our regional headquarters and affiliated industrial park stand and support the joint venture company's operations, of which RMB0.3 billion was funded by Changfeng.

RISK MANAGEMENT AND INTERNAL CONTROL

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, information system, internal control, human resources, and investment management, and we are dedicated to continuously improving these systems. We continually review the implementation of our risk management and internal control policies and procedures to enhance their effectiveness and sufficiency.

Financial reporting risk management

We have in place a set of accounting policies in connection with our financial reporting risk management. We have various procedures in place to implement accounting policies, such as financial reporting management policies and financial statements preparation policies. We have various procedures and IT systems in place to implement our accounting policies. Our financial department reviews our management accounts based on such procedures. We also provide regular training to our finance department employees to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

Internal control risk management

We have designed and adopted strict internal control procedures to ensure the compliance of our business operations with the relevant rules and regulations. In accordance with these procedures, our legal, finance and other departments work closely together to: (a) perform risk assessments and give advice on risk management strategies; (b) improve business process efficiency and monitor internal control effectiveness; and (c) promote risk awareness throughout our company.

In accordance with these procedures, our in-house legal department reviews and updates forms of contracts that we enter into, examines contract terms and reviews all relevant documents for our business operations, and is responsible for obtaining any requisite governmental pre-approvals or consents. We have strictly prohibited our employees from receiving kickbacks, bribing others, or secretly receiving commissions or any other personal benefits. We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

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Data and technology system risk management

Sufficient maintenance, storage and protection of user data and other related information is critical to our business. We dedicate significant resources to developing and implementing programs designed to protect user privacy, promote a safe environment and ensure the security of user data. We use a variety of technologies to protect the security of the data that we collect and store in compliance with relevant government regulations. See “– Technology & Security.”

In terms of data governance, we have formulated the Preliminary Policy on Personal Information Protection and Data Governance (《個人信息保護與數據治理基本政策》) that comprehensively stipulates the personal information protection and data governance of our Company and established a data security committee to be responsible for our personal information protection and data security management with a designated person in charge of data security to supervise data processing activities and the protection measures taken. In particular our data governance addresses the below five key areas:

- *Data protection.* We have formulated the 360 DigiTech Data Security Management System (《360數科數據安全管理制度》) to comprehensively regulate our data security protection issues, and further formulated the 360 DigiTech Customer Information Security Management Manual (《360數科客戶信息安全管理手冊》), 360 DigiTech Data Classification and Hierarchical Management System (《360數科數據分類分級管理制度》), 360 DigiTech Security Vulnerability Management Regulations (《360數科安全漏洞管理規定》), 360 DigiTech Security Emergency Response Management System (《360數科安全應急響應管理制度》), Personal Information Security Incident Management System (《個人信息安全事件管理制度》) and 360 DigiTech Data Security Training and Evaluation Provisions (《360數科數據安全培訓及考評規範》) for data security protection issues. The foregoing policies have set forth in detail our internal mechanisms for the protection of users’ personal information, data classification and hierarchical management, detection and reparation of security vulnerabilities, proper handling of data security incidents and personal information security incidents in emergency situations, and employee trainings to promote knowledge and awareness on data security, to ensure that we maintain a high level of data protection;
- *Data collection.* The Preliminary Policy on Personal Information Protection and Data Governance, and the 360 DigiTech Customer Information Security Management Manual expressly state that all relevant laws and regulations should be observed in data collection; specifically, all data collection behaviors should comply with the provisions of laws and regulations, and personal information should be collected only when consent is obtained or when such personal information collection is in compliance with relevant laws;

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- *Use of data.* The Preliminary Policy on Personal Information Protection and Data Governance stipulates that the use of data should conform to the principle of minimum necessity, and an assessment in accordance with the procedures prescribed in the 360 DigiTech Security Impact Assessment Provisions (《360 數科數據安全影響評估規範》) should be carried out before we use the data for data fusion, automated decision-making and artificial intelligence. The 360 DigiTech Security Impact Assessment Provisions also stipulates that regular technical audits of data processing should be conducted to check whether there is unauthorized access or misuse of data. We have also formulated the 360 DigiTech Data Security Employee Handbook (《360數科信息安全員工管理手冊》) and the Access Control Security Management Policy (《訪問控制安全管理策略》) to manage the rights of employees to access and operate data in order to avoid inappropriate use of data by employees. For the use of personal information for customization and personalization, we have specifically issued the Interpretation of Automated Decision Processing Regulations (《自動化決策處理規則說明》), through which users are informed of the purpose, scenario, basic principles, basic theories and rights of the use of automated decision-making;
- *Storage and retention of data.* The Preliminary Policy on Personal Information Protection and Data Governance stipulates that the data collected and generated in the course of operation in the PRC territory shall be stored in the PRC territory; the storage period of the data shall be determined in accordance with laws and regulations; the storage space shall be divided according to the classification and hierarchy of the data; the data that we recognize as sensitive data shall be encrypted and backed up. The Data Backup and Recovery Management Procedures (《數據備份和恢復管理程序》) further specifies the procedures and requirements involved in data backup and recovery conducted by us; and
- *Data transmission.* The 360 DigiTech Security Management System (《360數科數據安全管理制度》) stipulates specific requirements for data transmission. For example, servers storing and processing sensitive data should be isolated; data transmission between systems should be carried out through certified interfaces or centralized data transmission platforms; highly sensitive data transmitted through external networks or the internet should be encrypted and integrity protected; data leakage prevention control measures should be taken to prevent intentional or negligent leakage by employees; and if cross-border data transmission is involved, risk assessment should be conducted to ensure that the cross-border data transmission is in compliance with the requirements of relevant laws and regulations.

To ensure compliance with the relevant requirements of data security and personal information protection, we have also adopted policies that strictly regulate the access to our data by third parties who are in collaboration with us, which include but are not limited to third-party service providers and financial institutions, with the aim to prevent inappropriate use and disclosure of data. For instance, our Preliminary Policy on Personal Information

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Protection and Data Governance provides that before a supplier is entrusted to process data or a business partner is entrusted to jointly process data with us, a background investigation should be conducted on such supplier or business partner, and an agreement with relevant compliance commitments must be entered into by such supplier or business partner. During the collaboration process, we may conduct security audits or require our business partners to provide credible security audit report from time to time. The suppliers or business partners are also required to conduct internal data security-related assessments or impact assessments in accordance with the relevant laws and regulations and retain data processing records pursuant to the collaboration agreements. Upon the termination of the collaboration agreements, the suppliers or business partners are required to delete or properly dispose of all data obtained from us, and provide us relevant supporting documents for our record. We retain compliance review records of such suppliers and business partners. Additionally, our 360 DigiTech Data Security Management System stipulates that if a business partner receives user information from us, it shall sign a confidentiality agreement. A security assessment is required before our system is connected with the systems of financial institution partners or third-party service providers (collectively, the "third-party systems") due to business development needs. We have further formulated the Regulations on Access Management of Third-party Systems, requiring third-party systems to comply with the following four requirements to ensure the security of network and data: (a) interface authentication, (b) user authority control, (c) parameter encryption and (d) network transmission encryption. The Regulations on Access Management of Third-party Systems also prescribe rules on the behavior of third-party personnel. Besides, we conduct regular security reviews and investigations on the data processing activities conducted by financial institution partners and third-party service providers to ensure that their data processing activities in collaboration with us are in compliance with the laws and regulations relating to privacy protection and data security.

Human resource risk management

We provide regular and specialized training tailored to the needs of our employees in different departments. Through these trainings, we ensure that our staff's skill sets remain up-to-date and enable them to discover and meet our users' needs. We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanism, negligence, and corruption. We provide employees with resources for explanation on guidelines contained in the employee handbook.

We also have in place a code of business conduct and ethics approved by our Board and an anti-bribery and corruption policy approved by our executive management team, providing to our employees the best commercial practice and work ethics as well as our anti-bribery guidance and measures. We make our internal reporting channel open and available to our staff for any wrongdoing or misconduct. Reported incidents and persons will be investigated and appropriate measures will be taken in response to the findings.

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Audit committee experience and qualification and board oversight

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing, and mitigating risks involved in our business operations.

The audit committee consists of three members, namely Mr. Yongjin Fu, Mr. Gang Xiao and Mr. Andrew Y Yan. All three members are independent non-executive Directors. Mr. Yongjin Fu is the chairman of our audit committee. For the professional qualifications and experiences of the members of our audit committee, see "Directors and Senior Management."

We also maintain an internal audit department that is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee on a timely basis to ensure that any major issues identified thus are channeled to the committee. The audit committee then discusses the issues and reports to the Board, if necessary.

Ongoing measures to monitor the implementation of risk management policies

Our audit committee monitors the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

ENVIRONMENTAL SUSTAINABILITY, SOCIAL RESPONSIBILITY, AND CORPORATE GOVERNANCE

We are committed to leveraging our technology and platform to create value for the society. With China's poverty alleviation and environmental protection campaigns and the unprecedented challenges faced by China and the globe in the COVID-19 pandemic, we endeavor to devote our efforts to take on social responsibility and contributing to the community. In addition, we strive to adhere to a high standard of corporate governance, implement ESG policies, and operate our business on an ethical and compliant basis. We will continue to promote a diverse and inclusive environment for our talents, pursue environmentally friendly operations and contribute to public welfare.

ESG Governance

Our Directors acknowledge the importance of corporate social responsibility to the long-term success of our Group. Pursuant to the Environmental, Social and Corporate Governance Reporting Policy of our Group, or the ESG Policy, our Board is responsible for setting up our Group's overall ESG governance management policies, strategies, priorities and targets, reviewing our ESG Policy on an annual basis to ensure its effectiveness, and fostering a culture of acting in accordance with the core ESG values.

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Pursuant to the ESG Policy, we have established an ESG committee, which is responsible for overseeing and guiding the ESG initiatives of our Group. The ESG committee reports to our Board on ESG-related matters and comprises senior management and staff with a solid understanding of current and emerging ESG issues and our business. Set forth below are the key responsibilities of our ESG committee:

- abiding by the latest ESG-related laws and regulations, including the applicable sections of the Listing Rules, keeping the Board informed of any changes in such laws and regulations and updating our ESG Policy accordingly;
- assessing ESG-related risks on a regular basis according to applicable laws, regulations and policies to ensure our responsibilities with respect to ESG matters are met;
- monitoring local environmental, social and climate changes in regions where we operate and take timely measures to mitigate the risks associated with such volatile changes during our daily business operations;
- monitoring the implementation of our ESG Policy and engaging a third-party consultant to support us in fulfilling our ESG targets if the ESG committee considers it necessary;
- holding meetings on a regular basis to identify, assess and manage our progress in achieving our key ESG targets; and
- preparing annual ESG report, reporting to our Board on the ESG-related performance of our Group, the effectiveness of our ESG Policy and providing our Board recommendations relating to ESG matters.

Metrics and targets

We are committed to operating our business in a manner that protects the environment and improves environmental sustainability. We have established metrics and targets in the following areas to evaluate and guide our sustainable business operations.

- *Greenhouse gas emission.* We evaluate our greenhouse gas emission level using total greenhouse gas emission measured in tons. In 2021, our total greenhouse gas emission was 1,296.4 tons. We intend to keep the level of our total greenhouse gas emission between 80% and 120% of that in 2021 over the next three years.
- *Water usage.* We evaluate our water usage level using total water usage measured in tons. In 2021, our total water usage was 93,600.0 tons. We intend to keep the level of our water usage between 80% and 120% of that in 2021 over the next three years.

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- *Energy consumption.* We evaluate our energy consumption level using total energy consumption measured in MWh. In 2021, our total energy consumption was 1,907.9 MWh. We intend to keep the level of our energy consumption between 80% and 120% of that in 2021 over the next three years.

Upon the [REDACTED], we will publish an ESG report annually to comprehensively analyze and disclose important ESG matters, including our ESG-related guidelines, strategies and targets, as well as their significance in relation to our Group's business. We intend to be public and transparent in terms of our ESG performance before our [REDACTED] and stakeholders. During the Track Record Period and up to the Latest Practicable Date, we complied with relevant environmental and occupational health and safety laws and regulations in all material aspects, and we did not encounter any environmental or occupational health related incidents or complaints that would have any material adverse impact on our business, financial condition or results of operation during the same period.

Our ESG strategies generally address three key areas: environmental sustainability, which broadly includes energy preservation and reduction of carbon emission, social responsibility, which entails disaster assistance and financial hardship assistance, and corporate governance, which targets the creation and maintenance of an equal and inclusive work environment.

Environmental Sustainability

We attach great importance to the impact on the environment during our daily operations, make reasonable use of clean energy, continue to advocate the concept of low-carbon office, and actively carry out environmental protection activities to reduce the impact of our operations on the environment.

Improve resource utilization. We have formulated a carbon neutralization plan within our Company, pursuant to which we have established an energy-saving responsibility system, strengthened energy-saving management in office areas, and improved employees' awareness of emission reduction, so as to reduce carbon footprint and resource waste. We implemented a series of energy-saving measures, aiming to further promote energy conservation and emission reduction efficiently on the basis of maintaining the previous energy consumption level. These measures include: setting the air conditioning temperature limit for power saving and lowering carbon emissions; providing recyclable straws in office, the production of which generally results in 14 gram carbon emission less than that resulting from the production of each plastic straw; setting automatic switches to power-saving modes on computers, printers and other equipment whenever they are not in use; advocating for power-off and network disconnection of electrical equipment after work; and reducing standby energy consumption by turning off the machines not actively in use.

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Green building construction. In 2021, in adopting the environmental protection concept of “eco + 360,” we built a new headquarters building and refer it as a “green technology demonstration building,” showcasing our business values of “wisdom + characteristics” and manifesting our commitment to maintaining “two-way friendliness” between the environment and individuals. In addition, the building also applies the construction guideline which we refer to as “Sponge City.” Following the construction guideline, during intensive precipitations, the drainage capacity is strengthened of the drainage system to help alleviate the pipe network pressure of the plot; and the reuse of rainwater effectively increases the energy-saving rate of the building. The total annual runoff control rate of the building, representing the proportion of the total annual rainfall that is effectively controlled against infiltration throughout the year as a percentage of the total annual rainfall, can reach as high as 70%.

Green finance. Through artificial intelligence, data analytics and other technologies, we design and develop Credit-Tech products and features targeting industries that encourage energy saving. For example, we have developed and provide tailored products, and offer promotions and subsidies, such as interest-free periods for loans facilitated through our platform, to consumers and producers of new energy vehicles to incentivize green consumptions.

Social Responsibility

We believe that by integrating our competitive edges with social welfare, we are on the right path to promote efficient and sustainable community development. We actively encourage and support various social development initiatives by participating in various charitable activities and promoting the concept of corporate social responsibility throughout our company.

Provision of assistance during natural disaster. In July 2021, a heavy rainstorm hit Henan province. To provide relief to the region, we immediately established an emergency relief team and donated RMB20 million through the 360 Public Welfare Foundation to rescue local people who were in dire situations due to the extreme weather condition and purchase emergency relief materials. We also organized all local employees in Henan to participate in rescue operations provided that their personal safety was secured. As the situation exacerbated, we continued providing support in locally deployed rescue operations and donated an additional RMB1 million to the China Foundation for Poverty Alleviation through 360 Public Welfare Foundation for the post-disaster reconstruction in Xinxiang, Henan province.

Implementation of the Small and Micro Assistance program. Compared with established enterprises, sole proprietors and SMEs have a weaker ability to counter financial risks, and it is critical for them to be able to quickly obtain financing in small amounts over a short term whenever urgent financial needs arise. To address the special needs of this group of prospective borrowers, in 2021, we officially announced the launch of the “Small and Micro Assistance program.” All merchants of the Agricultural and Sideline Products Trading Center are provided

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with a maximum line of credit of RMB200,000 and a maximum interest-free period of 30 days for loans facilitated through our platform. Meanwhile, we provide flexible loan tenors to address possible difficulties faced by merchants in capital turnover.

Corporate Governance

We value our people and respect the dignity, character, privacy and personal interest of each of our employees. We place strong emphasis on well-being in the workplace. Activities are organized regularly to facilitate our employees to explore and pursue their hobbies and interests, and achieve a healthy work-life balance. We encourage everyone within our organization to pursue professional development opportunities. In furtherance of this goal, we have been offering trainings and career development programs to our employees to support their growth and upward mobility.

In addition, we are committed to shaping our corporate governance and culture to a high standard. We believe good governance and healthy culture are essential to our employees' well-being as well as our business development. To this end, we have put in place a series of internal regulations to set forth the guidelines for compliance with laws and regulations and promote honest and ethical conduct, including our code of business conduct and ethics, anti-corruption compliance policy, ESG management policy, internal control manual, insider trading policy and disclosure controls and procedures, among others. Striving to create an equal and inclusive corporate environment, we have also established training and safety standards, and adopted internal policies that address the protection of women's rights and interests, the prohibition of child labor, and the human rights principles against forced labor.

COVID-19 Initiatives

We believe it is our responsibility to offer our hand in difficult times and our commitment to society is manifested in our initiatives taken during the COVID-19 outbreak. We support China's nationwide efforts to contain the spread of COVID-19 and have launched a variety of initiatives to combat the pandemic. We prioritized the well-being of our employees by enforcing daily health checks and encouraging working-from-home arrangements to reduce the risk of contracting the disease to the extent possible. In addition, we offered to our employees an online course on psychological counseling to guide them relieve their pressures and anxieties.

During the COVID-19 pandemic, we have also launched relevant preventive measures. For instance, we carry out comprehensive sterilization and office cleaning on a regular basis subject to the inspection by our management team. In addition, we implemented staggering lunch breaks and distributed hygiene materials such as masks and disinfectants to our employees on a daily basis. We have also adopted a policy suspending meetings of more than ten people in a conference room and encouraging organizing online meetings.

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LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We have been and may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

We and certain of our current and former officers and directors were named as defendants in a putative securities class action filed in federal court, captioned *In re 360 DigiTech, Inc. Securities Litigation*, No. 1:21-cv-06013 (U.S. District Court for the Southern District of New York, amended complaint filed on January 14, 2022). This case was purportedly brought on behalf of a class of persons who purchased our securities between April 30, 2020 and July 8, 2021 and who allegedly suffered damages as a result of alleged misstatements and omissions in our public disclosure documents in connection with our compliance and data collection practices. On January 14, 2022, Lead Plaintiff filed an Amended Complaint. On March 15, 2022, we filed a motion to dismiss the Amended Complaint. Briefing on the motion to dismiss was completed on May 31, 2022. In July 2022, the Court granted our motion to dismiss the Amended Complaint without prejudice, and granted Plaintiffs leave to replead by September 26, 2022. On September 26, 2022, Lead Plaintiff notified the Court that he does not intend to file a Second Amended Complaint. The Court entered a judgment in favor of Defendants on September 29, 2022. Plaintiff’s deadline to appeal the judgment has now lapsed, and we consider the case to effectively be closed.

For risks and uncertainties relating to past and future lawsuits against us, please see “Risk Factors – Risks Related to Our Business and Industry – We and certain of our current and former directors or officers were, and in the future may be, named as defendants in putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.”

Compliance Matters

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, our Significant Subsidiaries in China had complied with the applicable existing effective laws and regulations in all material aspects. Please refer to “Regulatory Overview” for details on the measures taken by us to ensure compliance with applicable laws and regulations.

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ICP License

The PRC regulations require telecommunications service providers procure the VATS licenses. ICP is considered as a sub-set of value-added telecommunications business. For companies which engage in internet information services of a commercial nature, the ICP license is required. See “Regulatory Overview – Regulations on Foreign Investment Restrictions – Regulations on value-added telecommunications services” for details.

It is unclear whether Credit-Tech service providers like us are required to obtain ICP license, or any other kind of VATS licenses. While one of our VIEs, Shanghai Qiyu, has been operating Credit-Tech business, communicating with Shanghai Communications Administration to obtain the ICP license and preparing for the application materials since its inception in 2016, it obtained its ICP license in April 2021 primarily due to the increasingly stringent licensing and regulatory environment. In particular, the delay for Shanghai Qiyu in obtaining its ICP license was primarily because (i) the governmental authorities adopted a prudent attitude in general towards online consumer finance business and other finance-related business in the substantive license application review process, and (ii) the beneficial ownership structure of Shanghai Qiyu was complicated, which required Shanghai Qiyu to spend substantial time in communicating with the governmental authorities during the license application process. The online information services offered through the online platform is a material component of our operations, which generates the online traffic and users for our services. If our past practice were deemed to be internet telecommunications business operations without VATS licenses or we were to be required to obtain additional VATS license, the governmental authorities may levy fines up to five times of the illegal income or RMB1 million, confiscate our income, revoke our business licenses, or require us to discontinue our relevant business, and our business, results of operations, financial condition, and prospects may be materially and adversely affected. See “Risk Factors – Risks Related to Our Business and Industry – If we fail to complete, obtain or maintain the value-added telecommunications license, other requisite license, or approvals or filings in China, our business, financial condition and results of operations may be materially and adversely affected.”

We believe Shanghai Qiyu’s exposure to the risk of material administrative penalties is remote based on our PRC Legal Adviser’s consultation with an officer of the MIIT in September 2021, whom our PRC Legal Adviser confirms to be competent to provide the relevant confirmation, and in light of the fact that Shanghai Qiyu has obtained the ICP license and Shanghai Qiyu has not been subject to any administrative penalties in this regard during the Track Record Period and up to the Latest Practicable Date. Based on the abovementioned PRC Legal Adviser’s view, our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations.

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Circular 141 and Supplementary Financing Guarantee Provisions

Circular 141 issued by the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group on December 1, 2017, introduces the regulating guidance on cash loan businesses including online micro-lending companies, P2P platforms and banking financial institutions. Circular 141 provides that a banking financial institution that offers cash loans through loan facilitation is prohibited from accepting credit enhancement or other similar services from third parties that lack requisite licenses to provide guarantees, among other requirements. In addition, according to Circular 141, all the relevant local authorities should submit the regulation plan and monthly working progress to the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group, which indicates gradual rectification for compliance with Circular 141 is allowed. See “Regulatory Overview – Regulation on Online Finance Services Industry – Regulations on the business of loans facilitation” for details.

On October 9, 2019, nine government authorities including the CBIRC, the NDRC and the MIIT promulgated the Supplementary Financing Guarantee Provisions, which, as advised by our PRC Legal Adviser, for the first time, explicitly requires that institutions providing services such as borrower recommendation and credit assessment for various lending institutions, including us as a Credit-Tech company, shall not provide, directly or in a disguised form, financing guarantee services without approval. For the companies without the relevant financing guarantee license but actually engaging in financing guarantee business, the regulatory authorities shall cease such operations and cause these companies to properly settle the existing business contracts. See “Regulatory Overview – Regulations on Financing Guarantee” for details.

We neither collected guarantee fees from our financial institution partners, nor took providing guarantees as our main operating business through our non-licensed subsidiaries, while historically a Consolidated Affiliated Entity that had not obtained the financing guarantee license provided guarantees or other credit enhancement services to certain financial institution partners. Under such model, the non-licensed Consolidated Affiliated Entity could be deemed as operating financing guarantee business and therefore non-compliant with Circular 141 and the Supplementary Financing Guarantee Provisions.

As advised by our PRC Legal Adviser, Circular 141 does not have retrospective effect on the loan facilitation business conducted prior to the issuance of Circular 141. Therefore, credit enhancement services provided by the non-licensed Consolidated Affiliated Entity to financial institution partners under the existing, unexpired framework agreements that were entered into prior to the issuance of Circular 141 on December 1, 2017 are not subject to the requirements under Circular 141. Besides, the Supplementary Financing Guarantee Provisions allow the companies that engaged in financing guarantee business without the relevant financing guarantee license to properly settle the existing business contracts.

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As advised by our PRC Legal Adviser, the regulatory authorities that issued Circular 141, namely, the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group, were established under the leadership of the PBOC and the CBRC, which are not the direct and regular regulatory authorities of the non-licensed Consolidated Affiliated Entity. In addition, Circular 141 mainly regulates banking financial institutions that participated in the cash loans business, instead of us as a Credit-Tech company. Furthermore, for a certain period after the issuance of Circular 141, there remained certain uncertainties as to the interpretation, application and enforcement of Circular 141. Despite that, as we attached great importance on compliance matters, after the issuance of Circular 141, we proactively communicated with our financial institution partners to discuss the possibility of changing our guarantee practice to avoid potential risks. We and most of our financial institution partners started adjustments on the cooperation model immediately after the issuance of the Circular 141. For other financial institution partners that did not immediately adjust the cooperation model with us, some of them were of the view that the loans for which we provided guarantees or other credit enhancement services were not "cash loans," and therefore should not be subject to the requirements under Circular 141. In particular, Circular 141 specifies that the business of "cash loans" is characterized as no specific loan usage scenarios, no designated loan usage, no limitation on targeted borrowers, and no mortgage. As such, these financial institution partners believed that the loans facilitated through our platform were not "cash loans" regulated under Circular 141 because the loans facilitated through our platform are used for the purposes of consumption (i.e. for purchasing goods or services) and do not have all the four characteristics of "cash loans" as specified under Circular 141. In addition, as far as we have known, other financial institution partners that did not immediately adjust the cooperation model with us verbally communicated with their local regulatory authorities at that time, and these local regulatory authorities of our financial institution partners were aware of and agreed that these financial institutions could continue their existing business practice while gradually conduct rectification.

Meanwhile, we also engaged certain third-party licensed financing guarantee or insurance companies for providing guarantees or other credit enhancement services that were previously provided by the non-licensed Consolidated Affiliated Entity to financial institution partners. In addition, two licensed Consolidated Affiliated Entities, namely Fuzhou Financing Guarantee and Shanghai Financing Guarantee, were established in 2018 and 2019, respectively, to provide guarantees or other credit enhancement service to our financial institution partners. We gradually transferred our then existing guarantees or other credit enhancement service provided by the non-licensed Consolidated Affiliated Entity to third-party licensed financing guarantee companies, Fuzhou Financing Guarantee and Shanghai Financing Guarantee, or third-party licensed insurance companies, respectively, according to our business needs. We substantially ceased most of the guarantee services or other credit enhancement services provided by the non-licensed Consolidated Affiliated Entity to our financial institution partners by the end of 2018 and no longer entered into any new framework agreement since the beginning of 2019, under which we provided guarantee or other credit enhancement services to financial institution partners through the non-licensed Consolidated Affiliated Entity. From 2019 to September 2020, there remained only one financial institution partner to which we provided guarantee services through the non-licensed Consolidated Affiliated Entity.

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Furthermore, to fulfill the requirement pursuant to the Supplementary Financing Guarantee Provisions and ensure compliance, after the issuance of the Supplementary Financing Guarantee Provisions on October 9, 2019, we continued to further adjust our historical financing guarantee practice and properly make settlement for the historical framework agreement with the only remaining financial institution partner to which we provided guarantee services through the non-licensed Consolidated Affiliated Entity, despite the impact of COVID-19 in the first half of 2020. As a result, we ceased all relevant guarantees or other credit enhancement services through the non-licensed Consolidated Affiliated Entity in September 2020.

Considering that: (i) we had not been subject to any administrative fines or penalties during the Track Record Period and up to the Latest Practicable Date due to such past practice; (ii) we have ceased such practice in September 2020 and thereafter did not provide any relevant guarantees or other credit enhancement services through the non-licensed Consolidated Affiliated Entity to our financial institution partners for loans facilitated through our platform; (iii) on July 12, 2022, our PRC Legal Adviser conducted verbal consultation with an officer in the local government authority in Shanghai who confirmed that the authority is responsible for investigations and daily supervisions of the financial guarantee business and is the competent authority to provide that confirmation; our PRC Legal Adviser made the local government authority in Shanghai aware that we did not provide any guarantees or other credit enhancement services through the non-licensed Consolidated Affiliated Entity to new loans facilitated through our platform since September 2020, and was informed that we would not be imposed any fines or penalties with regards to our past practice for providing all relevant guarantees and other credit enhancement services through the non-licensed Consolidated Affiliated Entity to the new loans facilitated through our platform from the implementation of such provisions up to 2021 that may be deemed to be inconsistent with certain requirements under Circular 141 and the Supplementary Financing Guarantee Provisions; and (iv) on October 17, 2022, our PRC Legal Adviser further conducted a verbal consultation with an officer of Shanghai Financial Regulatory Bureau, who confirmed that if that local government authority in Shanghai considers not imposing any fine or penalty, the Shanghai Financial Regulatory Bureau will generally respect the conclusion of that local government authority in Shanghai. Based on the foregoing, as advised by our PRC Legal Adviser, the risk that we would be subject to material administrative penalties by relevant authorities for such past practice in accordance with Circular 141 and the Supplementary Financing Guarantee Provisions is remote. In addition, considering that (i) our non-licensed Consolidated Affiliated Entity is registered in the district of Shanghai where the local government authority in Shanghai providing the confirmation on July 12, 2022 is authorized for the daily supervision and administration of local enterprises engaging financing guarantee business; (ii) according to the Measures of Shanghai Municipality on the Supervision and Administration of financing guarantee companies (《上海市融資擔保公司監督管理辦法》), the relevant district government authority shall undertake the duties of preliminary examination and information statistics of the financing guarantee companies registered in their respective districts, organize and carry out risk monitoring, early warning, prevention and disposal and other related work, and take corresponding supervision and management measures; (iii) according to the List of Powers and Responsibilities of that local government authority in Shanghai as set forth on the

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website of Government Service Platform of Shanghai, that local government authority in Shanghai takes the responsibility on supervision and inspection of the business activities of local financial organizations and conducting off-site supervision and on-site inspection of financing guarantee companies registered in that district; and (iv) the above-mentioned verbal consultations with that local governmental authority in Shanghai and the Shanghai Financial Regulatory Bureau, our PRC Legal Adviser is of the view that the local government authority in Shanghai is a competent authority and the officer of that local governmental authority in Shanghai is competent to provide the above confirmations. Currently, third-party financing guarantee companies or the licensed Consolidated Affiliated Entity provides guarantee or other credit enhancement services to our financial institution partners. We engage third-party guarantee companies to provide guarantee services according to the commercial arrangements of the financial institution partners and because the relevant regulations impose a cap on the outstanding guarantee liabilities of the licensed Consolidated Affiliated Entity. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations taking into consideration the confirmation of relevant authorities, the PRC Legal Adviser’s above-mentioned view and other facts as discussed above. Having taken into account the views of our Directors and our PRC Legal Adviser, which are concurred by the PRC legal adviser of the Joint Sponsors, nothing material has come to the attention of the Joint Sponsors, who are not legal experts, that would cause them to question the views of our Directors that the above situation did not and will not have a material adverse effect on our Group’s operation and financial performance.

Meeting with Regulators

In April 2021, we and 12 other major financial technology platforms were invited to meet with the PBOC, the CBIRC, the CSRC, the SAFE and other financial regulators to discuss the operations and compliance practice of these platforms’ internet financial businesses in China. We have been making rectifications and adjustments to our operations to address the issues discussed during the meeting and results of our self-examination according to the guidance provided by the regulators. As of the Latest Practicable Date, we have substantially completed most of the rectification measures based on our self-examination results according to the guidance provided by the relevant authorities. The regulatory authorities have reviewed our rectification measures in general. As a result, we have moved on to the regular regulatory supervision status (常態化監管階段) from the self-examination and rectification status (自查整改階段) according to the guidance provided by the regulatory authorities. Our rectification results remain subject to the regulators’ regular supervision, and we cannot assure you that the measures we have taken and rectifications we have made will satisfy the requirements from the regulators. To the extent that our rectification efforts are deemed not sufficient or unsatisfactory to the regulators, we may face further rectification orders or other administrative actions, in which case our business and operations may be materially and negatively affected. Please refer to “Risk Factors – Risks Related to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected” for details.

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Housing Provident Fund

During the Track Record Period, one of our PRC subsidiaries did not complete its housing provident fund registration in time as required under the Regulations on Administration of Housing Provident Fund and other relevant regulations. As of the Latest Practicable Date, we have completed the housing provident fund registration for such subsidiary.

According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), if we fail to undertake contribution registration of housing provident fund or fail to go through the formalities of opening housing provident fund accounts for our employees, the housing provident fund management center shall order us to go through the formalities within a prescribed time limit. Failure to do so at the expiration of the time limit will lead to the imposition of a fine between RMB10,000 and RMB50,000. We did not complete the housing provident fund registration in a timely manner primarily because the region where the subsidiary is located is remote and transportation in that region is inconvenient. See "Risk Factors – Risks Related to Our Business and Industry – Failure to comply with the PRC Social Insurance Law and the Regulation on the Administration of Housing Provident Funds may subject us to fines and other legal or administrative sanctions."

Our Directors believe that such non-compliance would not have a material adverse effect on our business or results of operations, considering that: (i) we had not been subject to any administrative actions, fines or penalties during the Track Record Period and up to the Latest Practicable Date due to such non-compliance; and (ii) we were neither aware of any employee complaints filed against us nor involved in any labor disputes with our employees with respect to housing funds during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC Legal Adviser, considering the foregoing circumstances, the risk that we would be subject to material administrative penalties by relevant authorities is remote.

LICENSES AND PERMITS

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, our Significant Subsidiaries incorporated in China had obtained all requisite licenses, approvals and permits from relevant governmental authorities necessary to conduct our operations in all material aspects from the relevant government authorities in China, except Shanghai Qiyu's past practice and only obtained its ICP license in April 2021. See "Risk Factors – Risks Related to Our Business and Industry – If we fail to complete, obtain or maintain the value-added telecommunications license, other requisite license, or approvals or filings in China, our business, financial condition and results of operations may be materially and adversely affected."

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MATERIAL REGULATIONS RELEVANT TO OUR BUSINESS

Circular 141

Circular 141, effective on December 1, 2017, provides that a banking financial institution that offers cash loans through loan facilitation is prohibited from accepting credit enhancement or other similar services from third parties that lack requisite license to provide guarantees, among other requirements. In addition, banking financial institutions shall (i) not extend loan funded by its own capital and funding from unqualified institutions; (ii) not outsource credit review and approval, risk management or other core operations in the provision of credit services to third-party collaborators; including not accepting credit enhancement services, loss-bearing commitments or other credit enhancement services provided in a disguised form by any third party that does not have relevant qualifications to provide guarantees; (iii) make sure that the third party with which it cooperates will not charge any interests or fees from borrowers; and (iv) not directly invest or invest in a disguised form in asset-backed securitization products or other products backed by cash loans, campus loans or down payment loans.

Historically, a Consolidated Affiliated Entity that had not obtained the financing guarantee license provided guarantees or other credit enhancement services to certain financial institution partners, which could be deemed non-compliant with Circular 141. We have completely ceased such practice through the non-licensed Consolidated Affiliated Entity since September 2020 as we finished our adjustment of our historical financing guarantee practice. In addition, we are not involved in financial institutions' independent credit review and approval and risk management operations, among others, in compliance with Circular 141. As advised by our PRC Legal Adviser, the risk that we would be subject to material administrative penalties by relevant authorities for our past guarantee practice under Circular 141 is remote. Hence, we are of the view that the measures we take to ensure compliance with Circular 141 will not have any material adverse impact on our business operation or financial performance. Please refer to "– Legal Proceedings and Compliance – Compliance Matters – Circular 141 and Supplementary Financing Guarantee Provisions" and "Regulatory Overview – Regulations on Online Finance Services Industry – Regulations on the business of loan facilitation" and "Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected" for details.

Internet Loans Interim Measures

The Internet Loans Interim Measures, effective on July 12, 2020 and amended on June 21, 2021, requires commercial banks to evaluate their cooperating institutions and implement processes to manage these institutions and not to accept direct and disguised credit enhancement services from unqualified cooperating institutions, nor entrust third-party agencies with records of violent collection or other illegal records to collect loans. The Internet

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Loans Interim Measures also provide that, except for cooperating institutions that contribute funding to the loans, commercial banks shall not completely delegate the cooperating institutions to perform core operations, such as loan disbursement, principal and interest collection, and stop payment and shall independently carry out risk management and credit approval for the loans they fund, and shall bear primary responsibility for post-loan management.

As advised by our PRC Legal Adviser, we are in compliance with the Internet Loans Interim Measures in all material respects. In addition, we are not involved in financial institutions' independent credit review and approval and risk management operations. We assist in financial institutions' post-loan management as instructed or delegated by them and the financial institutions still bear the primary responsibility, among others, in compliance with the Internet Loans Interim Measures. Hence, we are of the view that the measures we take to maintain compliance with the Internet Loans Interim Measures will not have any material adverse impact on our business operation and financial performance. Please refer to "Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected" and "Regulatory Overview – Regulations on Online Finance Services Industry – Regulations on the business of loan facilitation" for details.

Draft Online Marketing Measures

The Draft Online Marketing Measures, issued on December 31, 2021, regulates online marketing of financial products by financial institutions or internet platform operators entrusted by such financial institutions. They prohibit third-party online platform operators from being involved in the sales process of financial products in a disguised way without the approval of financial regulatory authorities, including but not limited to interactive consultation with consumers on financial products, suitability evaluation of consumers of financial products, signing of sale contracts, transfer of funds and participation in the income sharing of financial business. As of the Latest Practicable Date, the Draft Online Marketing Measures have not been formally adopted and it is uncertain when the final regulations will be issued and take effect, and how they will be interpreted and implemented.

We do not conduct suitability evaluation of consumers of financial products. Instead, we utilize technologies to conduct preliminary credit assessment on prospective borrowers and match such prospective borrowers with financial institution partners. As advised by our PRC Legal Adviser, under the Draft Online Marketing Measures, our online platform entrusted by financial institutions is allowed to conduct online marketing, such as displaying information of financial products via 360 Jietiao app and providing online channels for consumers to access financial products, under our embedded financial model, intelligent marketing services or other platform services provided to financial institutions as long as (i) we are not involved in the aforementioned sale process of financial product and (ii) the operations of our online platform continue to be entrusted by financial institutions pursuant to relevant laws and regulations.

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Nevertheless, certain service fees we charge from financial institution partners are based on loan volume and interest rate, which may be recognized as participating in the income sharing of financial business in a disguised way. According to the Draft Online Marketing Measures, we may be required to adjust the way we charge financial institutions.

If the Draft Online Marketing Measures take effect in its current form, we will consult and negotiate with our financial institution partners to make the necessary adjustments on cooperation agreements as required by the authorities and our financial institution partners to ensure compliance. Meanwhile, the Draft Online Marketing Measures provide a 6-month grace period from its effectiveness date for companies to make adjustments and become compliant with the provisions therein. If the Draft Online Marketing Measures are adopted in their current form, we believe the adjustment of the service fee arrangement will not have a material adverse effect on the cooperation between the financial institutions and us or our revenues. Based on our current assessment, we are of the view that such adjustment measures we may take will not cause any material adverse impact on our business operation and financial condition. Please refer to "Risk Factors – Risks Relating to Our Business and Industry – Our access to sufficient and sustainable funding at reasonable costs cannot be assured. If we fail to maintain collaboration with our financial institution partners or to maintain sufficient capacity to facilitate loans to borrowers, our reputation, results of operations and financial condition may be materially and adversely affected" and "Regulatory Overview – Regulations on Online Finance Services Industry – Regulations on online marketing of financial products" for details.

Online Micro-Lending Draft

The Online Micro-Lending Draft, published on November 2, 2020, provides that the online micro-lending business conducted by a micro-lending company shall mainly be carried out within the provincial-level administrative region to which its place of registration belongs, and shall be not operated beyond such region without the approval of the banking regulator under the State Council. In addition, the Online Micro-Lending Draft provides the following requirements with respect to micro-lending companies that conduct micro-lending business: (i) the registered capital of a micro-lending company which engages in online micro-lending business shall not be less than RMB1 billion and shall be paid in lump-sum in the form of cash; (ii) the registered capital of a micro-lending company which engages in online micro-lending business across provincial-level administrative regions shall not be less than RMB5 billion and shall be paid in lump-sum in the form of cash; (iii) the capital contribution of a micro-lending company's controlling shareholder shall not be higher than 35% of its net assets in the previous fiscal year; (iv) the controlling shareholder of a micro-lending company which engages in online micro-lending business shall have a good financial position and be profitable consecutively in the last two fiscal years while having cumulative tax liabilities of not less than RMB12 million (as per the standard of consolidated accounting statement); and (v) an investor, its related parties and persons acting in concert shall not be the major shareholders of more than two micro-lending companies that engage in online micro-lending business across provincial level administrative regions, or hold controlling interests in more than one micro-lending company that engages in online micro-lending business across provincial-level administrative regions.

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Fuzhou Microcredit has obtained the approval from a competent supervising authority to operate online micro-lending business. As of the Latest Practicable Date, Fuzhou Microcredit has increased its registered capital to RMB5 billion, which was fully paid, to meet the requirements as stated in the Online Micro-Lending Draft and would proactively apply for the license to engage in online micro-lending business across provincial-level administrative regions when the relevant rules are officially formulated. Based on our current assessment and as advised by our PRC Legal Adviser, we are of the view that Fuzhou Microcredit and its controlling shareholder fulfill the requirements in (i), (ii), (iv) and (v) on the business operation and financial condition under the Online Micro-Lending Draft in all material respects, except the requirement that the capital contribution of a micro-lending company's controlling shareholder shall not be higher than 35% of its net assets in the previous fiscal year. Except the requirement (iii) as mentioned above, our PRC Legal Adviser is not aware of any material legal impediments which specifically stated in the Online Micro-Lending Draft to meet the requirements to acquire an online micro-lending license under the Online Micro-Lending Draft for Fuzhou Microcredit. As of the Latest Practicable Date, the Online Micro-Lending Draft is yet to be formally promulgated and adopted and it is uncertain when the final regulations will be issued and take effect and how they will be enacted, interpreted and implemented, and there can be no assurance that the PRC regulatory authorities will ultimately take a view that is consistent with our PRC Legal Adviser.

Currently, Fuzhou Microcredit can conduct cross-province business with its valid license. If the Online Micro-Lending Draft takes effect in its current form, Shanghai Qiyu, the controlling shareholder of Fuzhou Microcredit, can increase its net assets by capital increment and profit enhancement to meet this requirement, and Fuzhou Microcredit may need to obtain the legal approval of the banking regulator under the State Council in order to engage in online micro-lending business across provincial-level administrative regions. Based on the foregoing assessment and the abovementioned PRC Legal Adviser' view, we are of the view that the measures we plan to take to ensure compliance with the Online Micro-Lending Draft, if it is enacted in its current form, will not have any material adverse impact on our business operation and financial performance. However, if we fail to obtain the license to engage in online micro-lending business across provincial-level administrative regions, we may not be able to obtain sufficient funding to fulfill our future growth needs. See "Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of micro-lending business and financing guarantee business. If any of our business practices are deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected" and "Regulatory Overview – Regulations on Online Finance Services Industry – Regulations on micro-lending business."

Credit Reporting Measures and Notice Relating to Disconnecting Direct Connection

The Credit Reporting Measures, effective on January 1, 2022, requires that any entity that engages in personal credit reporting business shall obtain permit from the PBOC's personal credit reporting agency; any entity that engages in enterprise credit reporting business shall complete filing procedures pursuant to the law; and any entity that engages in credit rating

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business shall complete filings as a credit rating agency pursuant to the law. The Credit Reporting Measures provide that (i) credit reporting agencies shall collect credit information following the "minimum and necessary" principle and must not collect, compile, store and process credit information by unlawful means, and must not alter original data, (ii) users of information shall not abuse credit information, and the credit reporting agencies shall comply with relevant business rules when they provide credit information for credit inquiry, credit evaluation, credit rating and anti-fraud services, (iii) credit reporting agencies shall take measures to ensure the credit information security, and establish an emergency and report system for incidents, and (iv) credit reporting agencies shall comply with related laws and regulations when providing credit information to overseas. Credit Reporting Measures provide an 18-month grace period from its effectiveness date for organizations that engage in credit reporting business to obtain the credit reporting business license and comply with its other provisions.

The Notice Relating to Disconnecting Direct Connection, issued on July 7, 2021, further prohibits the direct flow of personal information from internet platforms that collect such information to financial institutions.

In our service process and operation flow, we collect certain basic information and other necessary information of users for preliminary fraud detection and credit assessment, and then recommend the prospective borrowers' profiles to and share the preliminary results of our credit assessment with our financial institution partners to facilitate their final risk management and credit decision making. The foregoing operations may be deemed as operations of credit reporting business, pursuant to the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection.

To ensure compliance with the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection, we have taken various adjustment measures, and will complete such adjustments within the 18-month grace period that began on January 1, 2022. We have entered into a collaboration agreement with a licensed credit reporting institution for the implementation of plans to ensure the flow of personal information complies with the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection. In addition, we have been actively communicating with regulatory authorities regarding the adjustment actions and will continue to do so during the grace period. We estimate that the relevant annual costs resulting from such adjustments will account for approximately 1.4% of our facilitation, origination and servicing costs for the year ended December 31, 2021. Therefore, we believe the overall cost for the adjustments is within an acceptable range and will not materially adversely affect our cooperation with financial institutions, our business operation and financial performance. Please refer to "Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of credit reporting. If any of our business practices is deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected" and "Regulatory Overview – Regulations on Credit Reporting Business" for more details.

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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

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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

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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.

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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.

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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.

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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.

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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:

	<u>90 day+ delinquency rate</u>
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.

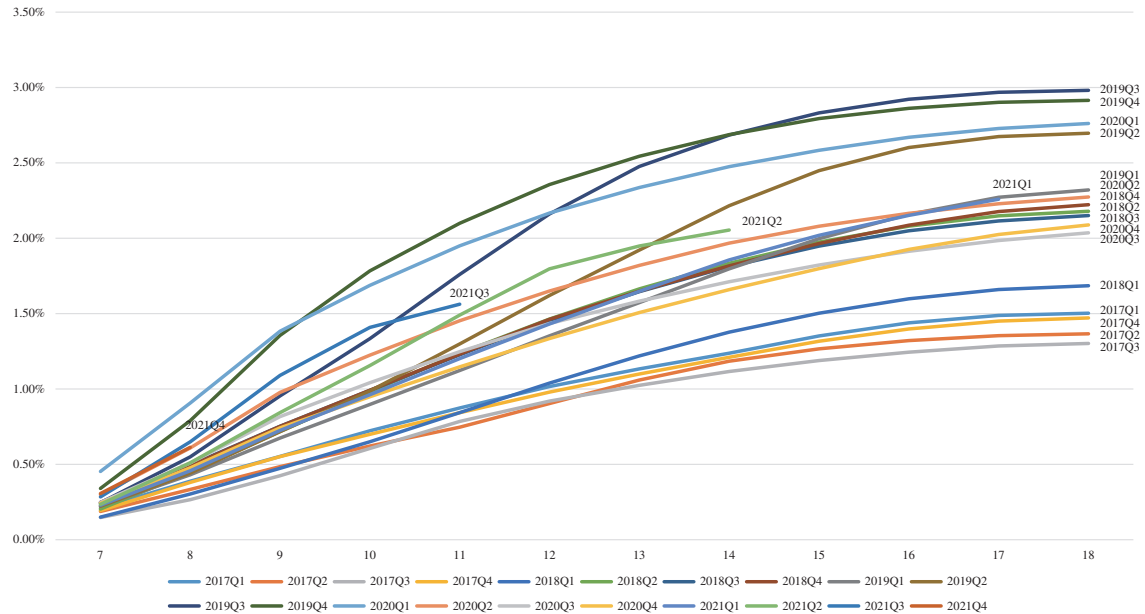
180 day+ vintage delinquency rates

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.

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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%

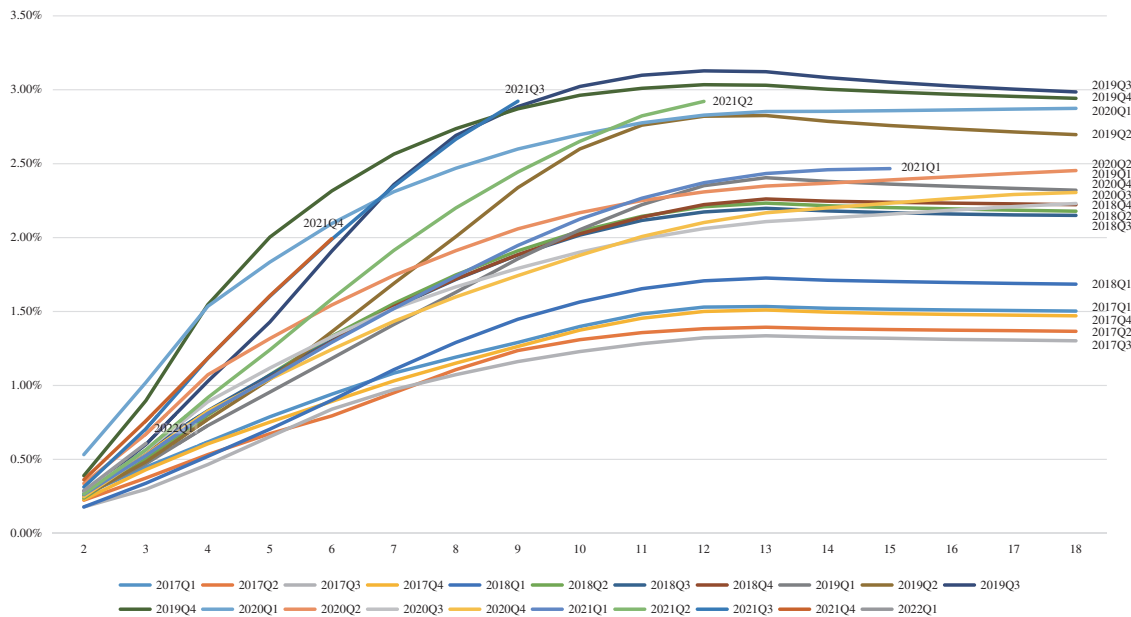
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The overall 30 day+ delinquency rate decreased from 2.8% as of December 31, 2019 to 2.5% as of December 31, 2020, primarily due to the improvement in asset quality of the loan portfolios in fiscal year 2020. The overall 30 day+ delinquency rate increased 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



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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

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

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.

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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\$	%	
	<i>(Unaudited)</i>											
	<i>(in thousands, except for percentages)</i>											
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.

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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

FINANCIAL INFORMATION

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	

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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.

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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			
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%	
	<i>(Unaudited)</i>											
	<i>(in thousands, except for percentages)</i>											
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.

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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.

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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.”

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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			
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%	
	<i>(Unaudited)</i>											
	<i>(in thousands, except for percentages)</i>											
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	

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	For the Year Ended December 31,						For the Six Months Ended June 30,					
	2019		2020		2021		2021		2022			
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%	
	(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	

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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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
				<i>(Unaudited)</i>		
				<i>(in thousands)</i>		
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	<u>250,428</u>	<u>301,161</u>	<u>253,922</u>	<u>126,831</u>	<u>98,833</u>	<u>14,755</u>

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.

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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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(Unaudited)</i>					
	<i>(in thousands)</i>					
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)	<u>3,144,019</u>	<u>4,091,319</u>	<u>7,040,121</u>	<u>3,537,736</u>	<u>2,468,886</u>	<u>368,596</u>
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)	<u>2,751,732</u>	<u>3,796,870</u>	<u>6,018,435</u>	<u>3,021,960</u>	<u>2,248,146</u>	<u>335,639</u>

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

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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.

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- *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 costs.* 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.

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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

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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.

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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.

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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.

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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.

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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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>	<i>RMB</i>	<i>US\$</i>
						<i>(Unaudited)</i>	
						<i>(in thousands)</i>	
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

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(in thousands)</i>				
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	<u>852,113</u>	<u>2,511,263</u>	<u>5,747,772</u>	<u>6,858,260</u>	<u>1,023,911</u>
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	<u>3,473,684</u>	<u>1,521,707</u>	<u>4,145,200</u>	<u>3,821,614</u>	<u>570,553</u>
Non-controlling interests	1,288	512	12,746	2,722	406
TOTAL EQUITY	<u>7,214,730</u>	<u>9,481,090</u>	<u>15,216,609</u>	<u>17,020,978</u>	<u>2,541,165</u>

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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.

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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.

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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

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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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(in thousands)</i>				
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	<u>2,351,872</u>	<u>2,702,465</u>	<u>3,320,728</u>	<u>3,791,293</u>	<u>566,025</u>

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.

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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.

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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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(in thousands)</i>				
Financial assets receivable	2,142,627	4,601,642	4,897,854	4,821,201	719,786
Allowance for uncollectible receivables	<u>(170,803)</u>	<u>(390,834)</u>	<u>(493,646)</u>	<u>(519,563)</u>	<u>(77,568)</u>
Financial assets receivable, net	<u>1,971,824</u>	<u>4,210,808</u>	<u>4,404,208</u>	<u>4,301,638</u>	<u>642,218</u>

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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(in thousands)</i>				
Loans receivable	9,591,204	8,010,081	13,652,723	15,844,979	2,365,593
Less allowance for loan losses	<u>(351,639)</u>	<u>(421,767)</u>	<u>(948,893)</u>	<u>(1,336,642)</u>	<u>(199,555)</u>
Loans receivable, net	<u>9,239,565</u>	<u>7,588,314</u>	<u>12,703,830</u>	<u>14,508,337</u>	<u>2,166,038</u>

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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		Expected credit loss rate	Gross Carrying Amount		Expected credit loss rate	Gross Carrying Amount		Expected credit loss rate
	RMB	RMB		RMB	RMB		RMB	RMB	
			%			%			%
<i>(in thousands, except for percentages)</i>									
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.

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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.

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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.

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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	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	<i>(Unaudited)</i>					
	<i>(in thousands)</i>					
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	<u>2,013,596</u>	<u>3,835,850</u>	<u>6,774,266</u>	<u>6,774,266</u>	<u>8,759,947</u>	<u>1,307,826</u>
Cash, cash equivalents, and restricted cash at the end of year	<u><u>3,835,850</u></u>	<u><u>6,774,266</u></u>	<u><u>8,759,947</u></u>	<u><u>7,836,700</u></u>	<u><u>10,730,226</u></u>	<u><u>1,601,981</u></u>

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.

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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

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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).

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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.

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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
<i>(RMB in thousands)</i>					
Operating Leases Obligations	75,257	38,326	36,931	–	–
Short-term Loans Obligations	611,164	611,164	–	–	–

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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

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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

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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.

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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.

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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

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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).

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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.

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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

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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."

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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.

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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

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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 <i>(in thousands of RMB) (Note 1)</i>	Estimated net [REDACTED] from the [REDACTED] <i>(in thousands of RMB) (Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022 <i>(in thousands of RMB)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ordinary share <i>RMB (Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS <i>RMB (Note 4)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ordinary share <i>HK\$ (Note 5)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS <i>HK\$ (Note 5)</i>

Based on the indicative [REDACTED] of [REDACTED] per [REDACTED]

[17,896,437] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

FINANCIAL INFORMATION

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.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDER

As at the Latest Practicable Date, Mr. Zhou, our chairman of the Board, was interested in approximately 14.3% of the total issued share capital of the Company, representing approximately 75.0% of the aggregate voting power of our total issued and outstanding Shares, after taking into account the super-voting rights of the 39,820,586 Class B ordinary shares controlled by Mr. Zhou through Aerovene Company Limited.

Upon [REDACTED], all the Class B ordinary shares held by Aerovene Company Limited shall be converted into Shares on a one-for-one basis pursuant to the conversion notice [delivered] by Aerovene Company Limited to the Company before the date of this document. Subsequently, no Class B ordinary shares of the Company will be issued or outstanding upon [REDACTED].

Immediately following the completion of the [REDACTED] and upon the conversion of all the Class B ordinary shares into Shares, Mr. Zhou will be interested in approximately [REDACTED]% of the total issued share capital of the Company, representing approximately [REDACTED]% of the aggregate voting power of our total issued and outstanding Shares (excluding the Shares issued and reserved for future issuance upon the exercising or vesting of awards granted under the Share Incentive Plans, and assuming the [REDACTED] is not exercised and no Shares are issued under the Share Incentive Plans). Accordingly, immediately following the completion of the [REDACTED] and upon the conversion of all the Class B ordinary shares into Shares, Mr. Zhou will be our largest shareholder upon the [REDACTED].

For more information on Mr. Zhou's shareholding, see section headed "Major Shareholders."

INDEPENDENCE FROM MR. ZHOU

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently of Mr. Zhou and his close associates after the [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Our Board consists of nine Directors, of whom three are independent Directors unrelated to Mr. Zhou. For more information, please see "Directors and Senior Management."

Our Directors consider that our Board and senior management will function independently of Mr. Zhou because:

- (a) each Director is aware of their fiduciary duties as a director, which require, among other things, that they act for the benefit, and in the interest, of our Company and does not allow any conflict between their duties as a director and their personal interests;

RELATIONSHIP WITH OUR LARGEST SHAREHOLDER

- (b) all of other Directors are independent of Mr. Zhou and decisions of the Board require the approval of a majority vote from the Board;
- (c) our daily management and operations are carried out by members of our senior management team, all of whom have substantial experience in our Group's business and/or the industry in which we operate, and will be able to make decisions that are in the best interest of our Group;
- (d) we have three independent Directors and certain matters of our Company will always be referred to them for review and/or approval;
- (e) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meeting(s) in respect of such transactions; and
- (f) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and Mr. Zhou that would support our independent management; see "– Corporate Governance Measures" in this section for further information.

Operational Independence

Our Group is not operationally dependent on Mr. Zhou. Our Group (through our subsidiaries and Consolidated Affiliated Entities) holds all material licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently of Mr. Zhou. Our access to, and relationship with, our customers and suppliers are independent of Mr. Zhou and we have an independent management team that operates our business.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function, and an audit committee comprising solely of independent Directors to oversee our accounting and financial reporting processes. We are capable of obtaining financing from third parties, if necessary, without reliance on Mr. Zhou.

No loans or guarantees provided by, or granted to, Mr. Zhou or their respective associates will be outstanding as of the Latest Practicable Date.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to manage, operate and carry on our business independently of, and do not place undue reliance on, Mr. Zhou and his close associates.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDER

COMPETITION

Mr. Zhou and/or our Directors may, from time to time, make minority investments or hold non-executive board positions in entities that operate in, or have subsidiaries that operate in, the broader industries in which all of our business segments also operate. As they do not have any executive or shareholding control over any of these entities, and these entities have separate businesses with separate management and shareholder bases that control them, they will not inject any of their interested entities into our Group; and to the extent our Directors hold non-executive board positions or make minority investments in these entities, we believe that this strengthens the experience and diversity of our Directors, as a group, and signifies their passion for the industries in which we operate.

As of the Latest Practicable Date, neither Mr. Zhou nor his close associates, nor any of our Directors, is interested in any business, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our shareholders' interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and Mr. Zhou:

- (a) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;
- (b) we have appointed Guotai Junan Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance; and
- (c) we have established our audit committee, compensation committee, nominating and corporate governance committee with written terms of reference in compliance with the rules of the Nasdaq. All of the members of our audit committee, including the chairman, are independent Directors.

Based on the above, our Directors are satisfied that we have sufficient corporate governance measures in place to manage conflicts of interest that may arise between our Group and Mr. Zhou, and to protect our minority Shareholders' interests after the [REDACTED].

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

The following table sets forth information regarding our Directors and senior management.

Name	Age	Position(s)	Date of appointment as director or senior manager	Year of joining our Group
<i>Directors⁽¹⁾⁽²⁾</i>				
Mr. Hongyi Zhou (周鴻禕)	52	Chairman of the Board of Directors	September 2018	2016
Mr. Haisheng Wu (吳海生)	40	Director and Chief Executive Officer	August 2019	2016
Mr. Alex Zuoli Xu (徐祚立)	53	Director and Chief Financial Officer	March 2021	2019
Mr. Eric Xiaohuan Chen (陳曉歡)	41	Director	November 2019	2019
Mr. Dan Zhao (趙丹)	42	Director	May 2020	2020
Ms. Jiao Jiao (焦嬌)	41	Director	November 2022	2022
Mr. Gang Xiao (肖鋼)	47	Independent Director ⁽³⁾	September 2018	2018
Mr. Yongjin Fu (付永進)	51	Independent Director ⁽³⁾	September 2018	2018
Mr. Andrew Y Yan (閻焱)	65	Independent Director ⁽³⁾	July 2019	2019
<i>Senior Management</i>				
Zhiqiang He (賀志強)	40	Senior Vice President	July 2020	2016
Yan Zheng (鄭彥)	35	Chief Risk Officer	July 2020	2016

Notes:

- (1) Our Board consists of nine Directors, including three independent Directors. See “– Board Practices” for the functions and duties of our Board. Our Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws, including the Hong Kong Listing Rules.
- (2) Save as disclosed below, none of our Directors held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this document and there are no family relationships among any of the Directors or executive officers of our Company. See “Major Shareholders” for disclosure of interests of the Directors and executive officers. There is no material matter relating to our Directors that needs to be brought to the attention of our shareholders and the information of our Directors disclosed in this document comply with the requirements under Rule 13.51(2) of the Hong Kong Listing Rules in all material respects.
- (3) Our independent Directors under applicable U.S. regulations are also independent non-executive Directors for the purpose of the Hong Kong Listing Rules. We have determined that Mr. Yongjin Fu qualifies as an “audit committee financial expert” under the applicable rules of the SEC and has the appropriate accounting or financial management expertise under the Hong Kong Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES

Our Directors

Hongyi Zhou (周鴻禕), aged 52, has served as our Director from our inception and in addition as our chairman of the Board since September 2018. Mr. Zhou has more than 20 years of managerial and operational experience in China’s internet industry. Mr. Zhou co-founded the Qihoo 360 Technology Co. Ltd., a company previously listed on New York Stock Exchange, and has served as the director of Qihoo 360 Technology Co. Ltd. from its inception to September 2021. Since February 2018, Mr. Zhou has been serving as the chairman of the board of directors of 360 Group. Mr. Zhou was also a director of Opera Limited (NASDAQ: QPRA), a multinational technology company which specializes in web browser development and fintech. Prior to founding Qihoo 360 Technology Co. Ltd., Mr. Zhou was a partner at IDG Ventures Capital. Mr. Zhou served as the chief executive officer of www.3721.com until it was acquired by Yahoo! China in January 2004 and as a non-executive director of Colour Life Services Group Co., Limited (HKEX: 1778) from May 2015 to March 2021. Mr. Zhou also serves as a director of a number of privately owned companies based in China. Mr. Zhou received his bachelor’s degree in computer software and his master’s degree in system engineering from Xi’an Jiaotong University (西安交通大學) in 1992 and 1995, respectively.

Haisheng Wu (吳海生), aged 40, served as our chief executive officer and our Director since August 2019. Before that, Mr. Wu had served as our president since our inception. Mr. Wu has also been a director of Shanghai Qibutianxia from April 2020 to April 2021. Before working on the establishment of our business, Mr. Wu worked as a product director at the 360 Group start page department from March 2011, in charge of 360 Start Page, 360kan and 360 Mobile Browser. Prior to that, Mr. Wu worked with the user product department of Baidu, Inc. (NASDAQ: BIDU; HKEX: 9888), as a product manager from July 2008. Mr. Wu received his bachelor’s degree in economics (media economics management) from Communication University of China (中國傳媒大學) and master’s degree in communication studies from Peking University (北京大學) in 2005 and 2008, respectively.

Alex Zuoli Xu (徐祚立), aged 53, has served as our Director since March 2021, as our chief financial officer since July 2020 and as our senior advisor since October 2019. Mr. Xu has extensive experiences in capital market, corporate finance and business management. Prior to joining us, Mr. Xu served as the Chief Financial Officer of Shenzhen Qianhai Dashu Financial Services Co., Ltd. (深圳前海大數金融服務有限公司) from September 2018 and a director of Qihoo 360 Technology Co. Ltd. from September 2017 to April 2019. He was a Co-Chief Financial Officer of Qihoo 360 (NYSE: QIHU) from February 2011 to August 2016. Prior to that, Mr. Xu was a Managing Director at Cowen & Company, LLC. He also served as the Chief Financial Officer of Yecare Holdings (北京益生康健電子商務有限公司) in 2010, and from May 2008 to March 2010, as the Chief Strategy Officer of China Finance Online Co., Ltd. (中國金融在線有限公司). Mr. Xu was a Senior Vice President at Brean Murray, Carret & Co from 2007 to 2008. He was an associate at Bank of America Securities, LLC from 2003 to

DIRECTORS AND SENIOR MANAGEMENT

2007, and worked at investment research department of UBS AG from 2002 to 2003. Mr. Xu received his bachelor’s degree in Applied Physics from Beijing University of Posts and Telecommunications (北京郵電大學) and an M.B.A. degree from Cornell University. Mr. Xu is a CFA charter holder.

Eric Xiaohuan Chen (陳曉歡), aged 41, has served as our Director since November 2019. Mr. Chen is currently a founding partner of Twin Peaks Capital. Prior to co-founding Twin Peaks Capital, Mr. Chen served as the managing director and head of business and financial services at FountainVest Partners, where he has worked from 2008 to 2021. Before joining FountainVest Partners in 2008, Mr. Chen had worked in the investment banking department of Lehman Brothers and Citigroup since 2006. From 2004 to 2006, Mr. Chen worked with Micron Technology as an engineer. Mr. Chen received his Bachelor’s degree in electrical engineering from National University of Singapore in 2004 and his EMBA degree from China Europe International Business School (中歐國際工商學院) in 2018.

Dan Zhao (趙丹), aged 42, has served as our Director since May 2020 and is currently the vice president of 360 Group. Mr. Zhao has also been a non-executive director of 360 Ludashi Holdings Limited (HKEX: 3601) since June 2020, and a director of Beijing Huafang Technology Co., Ltd. (北京花房科技有限公司), Beijing Mijing Hefeng Technology Co., Ltd. (北京密境和風科技有限公司), Huafang Group Inc. (花房集團公司) and Kincheng Bank of Tianjin Co., Ltd. since August 2020, September 2020, July 2021 and February 2022, respectively. Before joining 360 Group in January 2013, Mr. Zhao served as a senior manager in Alibaba Group (NYSE: BABA; HKEX: 9988), from November 2007. From September 2006 to November 2007, Mr. Zhao worked for KPMG Huazhen LLP as an associate manager. Mr. Zhao received his bachelor’s degree in international enterprise management from the University of Shanghai for Science and Technology (上海理工大學) in 2002, and his master’s degree in international business economics from the University of Konstanz in 2004. Mr. Zhao was accredited as a certified internal auditor by The Institute of Internal Auditors in November 2008.

Jiao Jiao (焦嬌), aged 41, has been appointed as our Director since November 2022. Ms. Jiao has been serving as a director of 360 Group since May 2022, where she has also been serving as a vice president and the head of the legal department since September 2021. From July 2019 to August 2021, Ms. Jiao served as the general counsel of Future VIPKID Limited (北京大米未來科技有限公司). Ms. Jiao served as a vice president and the head of the legal department of JD.com, Inc. (NASDAQ: JD; HKEX: 9618) from June 2014 to April 2019. Prior to that, she was a lawyer at JunHe LLP (北京市君合律師事務所) from June 2005 to May 2014. Ms. Jiao received her bachelor of laws and master of laws in 2002 and 2005, respectively, from Peking University (北京大學).

DIRECTORS AND SENIOR MANAGEMENT

Gang Xiao (肖鋼), aged 47, has served as our independent Director since September 2018. Mr. Xiao also serves as the general manager of Zhongcai Financial Holding Investment Ltd. (中財金控投資有限公司) since its inception. Prior to that, Mr. Xiao worked at China Financial & Economic Publishing House (中國財政經濟出版社) Accounting Branch as an editor from August 2006 to December 2010, during which he served as a deputy county mayor of Suichuan County of Jiangxi Province from December 2007 to December 2008. Prior to that, Mr. Xiao worked at the then Tianjin Government Procurement Center (天津市政府採購中心), which was later merged into Tianjin Public Resource Exchange Center (天津市公共資源交易中心) in December 2019, from March 2000 to February 2004. Mr. Xiao received his bachelor’s degree in electronic data processing accounting from Dongbei University of Finance and Economics (東北財經大學), his master’s degree in Chinese literature from Yanbian University (延邊大學) and his doctoral degree in public finance from Dongbei University of Finance and Economics (東北財經大學) in 1999, 2003 and 2008, respectively.

Yongjin Fu (付永進), aged 51, has served as our independent Director since September 2018. Mr. Fu has also been the chairman of the board of directors of GH Shining Asset Management Co., Ltd. (國華興益保險資產管理有限公司) and Huarui Insurance Sales Co., Ltd (華瑞保險銷售有限公司) since October 2021 and September 2019, respectively. In addition, Mr. Fu has worked at Guohua Life Insurance Co., Ltd. (國華人壽保險股份有限公司) as the executive director and general manager from December 2007. From August 2003 to October 2008, Mr. Fu served as a director, the vice chairman of the board of directors and the general manager of Hubei Biocause Pharmaceutical Co., Ltd. (天茂實業集團股份有限公司) (SZ: 000627). Prior to that, Mr. Fu worked with Haikou Agriculture & Industry & Trade (LUONIUSHAN) Co., Ltd. (海口農工貿(羅牛山)股份有限公司), now known as Luoniushan Co., Ltd., (羅牛山股份有限公司) (SZ: 000735), as the manager of the financial department, the assistant to the general manager, the deputy general manager and the vice chairman of the board of directors successively from April 1996. Mr. Fu received his bachelor’s degree in industrial management engineering, master’s degree in management science and doctoral degree in management science and engineering from Tianjin University (天津大學) in 1993, 1996 and 2003, respectively.

Andrew Y Yan (閻焱), aged 65, has served as our independent Director since July 2019. Mr. Yan is the founding managing partner of SAIF Partners IV (“SAIF”) since 2001. Prior to joining SAIF, he was a managing director and head of the Hong Kong office of Emerging Markets Partnership, the management company of AIG Asian Infrastructure Funds. Mr. Yan is currently an independent non-executive director of China Resources Land Limited (HKEX: 1109), and a director of ATA Creativity Global (NASDAQ: AACG). He is also a member of the Investment Committee of Peking University Education Foundation and the vice chairman of the Asset Management Association of China. In addition, Mr. Yan previously served as a director of Shenzhen Appotronics Corporation Ltd. (STAR Market of the Shanghai Stock Exchange: 688007), Shanghai Welltech Automation Co., Ltd (Shenzhen Stock Exchange: 002058), Haier Smart Home Co Ltd (Hong Kong Stock Exchange: 6690), Huize Holding Limited (NASDAQ: HUIZ) and Zhejiang Merit Interactive Network Technology Co Ltd (Shenzhen Stock Exchange: 300766). Mr. Yan also previously served as a non-executive director at Guodian Technology & Environment Group Corporation Limited, a company

DIRECTORS AND SENIOR MANAGEMENT

previously listed on the Stock Exchange (stock code: 1296) and privatized in May 2022, an independent director at TCL Corporation (Shenzhen Stock Exchange: 000100) and BlueFocus Intelligent Communications Group Co., Ltd. (Shenzhen Stock Exchange: 300058), and an independent non-executive director of China Southern Airlines Company Limited (HKEX:1055). Mr. Yan received a master of Arts degree from Princeton University in 1989, and a bachelor’s degree in engineering from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學), formerly known as Nanjing Aeronautic Institute (南京航空學院), in 1982.

Our Senior Management

Zhiqiang He (賀志強), aged 40, has served as our senior vice president since July 2020. Prior to that, Mr. He served as our vice president. Mr. He was the co-founder of Ningbo Siyinjia Investment Management Co. Ltd. (寧波私銀家投資管理有限公司). Prior to establishing Ningbo Siyinjia Investment Management Co. Ltd., Mr. He worked in the financial industry department at McKinsey & Company from July 2013 to July 2015. Mr. He received his bachelor’s degree in thermal and power engineering and master’s degree in business administration from Tsinghua University (清華大學) in 2003 and 2007, respectively. Mr. He received his MBA degree from Sloan Business School of Massachusetts Institute of Technology in 2013.

Yan Zheng (鄭彥), aged 35, has served as our chief risk officer since July 2020. Prior to that, Mr. Zheng served as our vice president from February 2017. Mr. Zheng has 13 years of experience in consumer finance risk management. Before joining us, Mr. Zheng co-founded Shenzhen Samoyed Internet Finance Service Co. Ltd. (深圳薩摩耶數字科技有限公司) in May 2015, and was in charge of its product risk management. Prior to that, Mr. Zheng worked at the risk division of Merchants Union Consumer Finance Company Limited (招聯消費金融有限公司) from April to May 2015, and the risk management department at the headquarter of China Merchants Bank (招商銀行) (SHA: 600036) from November 2014 to April 2015. Prior to that, Mr. Zheng worked at the risk management department of the Credit Card Center of China Merchants Bank from July 2008 to October 2014, primarily responsible for the credit policies of corporate businesses and credit limits. Mr. Zheng received his bachelor’s degree in quantitative economics (Chinese-foreign) from Shanghai University of Finance and Economics (上海財經大學) in 2008.

COMPENSATION

Service Agreements and Indemnification Agreements

We have entered into service agreements with each of our Directors. Under these agreements, each of our Directors is employed for a specified time period. Either party to each service agreement may terminate it at any time upon thirty (30) days prior written notice to the counterparty, or such shorter period as the parties may agree upon.

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Each Director has agreed to hold, both during and for a period of one (1) year after the termination or expiry of his or her service agreement, in strict confidence all information he/she has obtained or shall obtain from the Company that the Company has designated as 'confidential' or that is by its nature confidential, except to the extent such information (i) is in the public domain through no act or omission of the director, (ii) is required to be disclosed by law or a valid order by a court or other governmental body, or (iii) is independently learned by the director outside of his/her directorship with the Company and its affiliates. Each Director has agreed not to use the confidential information for his/her own benefit or any person or entity, except as may be specifically permitted in the service agreement.

In addition, each Director has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each Director has agreed not to (i) solicit or induce any employee, independent contractor, customer or supplier of the Company to terminate or breach his or her or its employment, contractual or other relationship with the Company; or (ii) interfere with our business in any matter.

We have also entered into indemnification agreements with each of our Directors. Under these agreements, we agree to indemnify our Directors against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director of our Company.

Compensation of Directors and Executive Officers

For each of the three years ended December 31, 2021, we paid an aggregate of approximately RMB12.7 million, RMB20.0 million and RMB19.3 million in cash to our Directors and executive officers. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our Directors and executive officers. Our PRC subsidiaries and Principal VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. For equity-based grants to our Directors and executive officers, see "– Share Incentive Plans."

Share Incentive Plans

Our Board has approved and adopted share-based awards under two stock incentive plans, namely, the 2018 Share Incentive Plan, (as amended in November 2019) (the "**2018 Plan**"), and the 2019 Share Incentive Plan (as amended in August 2020) (the "**2019 Plan**"), to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The terms of the 2018 Plan and 2019 Plan are substantially similar.

Under the 2018 Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to all awards is 25,336,096 ordinary shares. Under the 2019 Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to all awards is 17,547,567

DIRECTORS AND SENIOR MANAGEMENT

ordinary shares, and an annual increase on the first day of each of the four consecutive fiscal years of our Company commencing with the fiscal year beginning January 1, 2021, by (i) an amount equal to 1.0% of the total number of the then issued and outstanding shares or (ii) such fewer number of Shares as may be determined by our Board.

As of September 30, 2022, Shares underlying options and restricted share units that have been granted and are outstanding under the 2018 Plan totaled 1,773,536, excluding awards that were forfeited or canceled after the relevant grant dates. Options and restricted share units representing 15,427,018 ordinary shares have been granted and are outstanding under the 2019 Plan, as amended, excluding awards that were forfeited or canceled after the relevant grant dates.

The following paragraphs summarize the principal terms of the 2018 Plan and 2019 Plan.

Types of awards. The following briefly describes the principal features of the various awards that may be granted under our Share Incentive Plans.

- *Options.* An option may either be an incentive share option, or a non-qualified share option, under our Share Incentive Plans. We may only grant options that are intended to qualify as incentive share option to employees of the Company or its subsidiaries. After termination of employment of an employee, director or consultant, for reasons other than a termination by the Company for cause, or the participant's death or disability, the participant may exercise his or her option, to the extent vested and exercisable as of such date of termination, within 90 days (or such longer period as approved by the plan administrator under the 2019 Share Plan) of termination, unless otherwise provided in the award agreement.
- *Restricted shares.* Restricted shares may be granted under our Share Incentive Plans. Restricted share awards are shares that are subject to various restrictions, including restrictions on transferability and other restrictions as the plan administrator may impose. Unless the plan administrator determines otherwise, restricted shares shall be held by the Company as escrow agent until the restrictions on such restricted shares have lapsed. After the restrictions have lapsed, the shares shall be freely transferable by the participant, subject to applicable legal restrictions.
- *Restricted share units.* A restricted share unit award is the grant of the right to receive share(s) at a future date and may be subject to forfeiture. The award agreement shall specify any vesting conditions, the number of restricted share units granted, and such other terms and conditions as the plan administrator, in its sole discretion, shall determine. Upon vesting, the plan administrator, in its sole discretion, may pay restricted share units in the form of cash, shares or a combination thereof. Unless otherwise determined by the plan administrator, upon termination of employment or service during the applicable restriction period, restricted share units that are at that time unvested shall be forfeited or repurchased in accordance with the award agreement.

DIRECTORS AND SENIOR MANAGEMENT

Plan administration. The Board or a committee designated by the Board acts as the plan administrator. The plan administrator will determine the participants who are to receive awards, the type or types of awards to be granted, the number of awards to be granted, and the terms and conditions of each award grant. The plan administrator can amend outstanding awards and interpret the terms of our Share Incentive Plans and any award agreement.

Award agreement. Awards granted under our Share Incentive Plans are evidenced by an award agreement that sets forth the terms and conditions for each grant.

Exercise price. The exercise price of an award will be determined by the plan administrator. In particular, the exercise price per share subject to an option shall be determined by the plan administrator, which may be a fixed price or variable price related to the fair market value of the shares. For any participant who owns shares possessing more than 10% of the total combined voting power of all classes of shares of the Company, the exercise price per share subject to an option may not be less than 110% of the fair market value on the date of grant. In certain circumstances, such as a recapitalization, a spin-off, reorganization, merger, separation and split-up, the plan administrator may adjust the exercise price of any outstanding awards and share appreciation rights.

Eligibility. We may grant awards to our employees, consultants and all members of our Board. However, for any participant who owns shares possessing more than 10% of the total combined voting power of all classes of shares of the Company, such option may not be exercisable for more than five years from the date of grant.

Term of the awards. The term of each share award granted under our Share Incentive Plans may not exceed ten years after the date of grant.

Amendment. Our Board has the authority to amend and modify the Share Incentive Plans. However, no such action may adversely affect in any material way any award previously granted unless prior written consent has been given by the participant.

Vesting schedule. In general, the plan administrator determines the vesting schedule, which is set forth in the relevant award agreement.

Transfer restrictions. Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

Termination. The 2018 Plan and 2019 Plan shall terminate in May 2028 and November 2029, respectively, provided that our Board may terminate the plan at any time and for any reason.

DIRECTORS AND SENIOR MANAGEMENT

The following table summarizes, as of September 30, 2022, the awards granted and are outstanding under the 2018 Plan and 2019 Plan to several of our Directors and executive officers, excluding awards that were forfeited or canceled after the relevant grant dates.

Name	Ordinary Shares Underlying Awards	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Haisheng Wu	3,766,862	0.00001	May 20, 2018	May 19, 2028
	*		– February 20, 2020	February 19, 2030
	3,520,000		– November 20, 2020	November 19, 2030
Zhiqiang He	*	0.00001	May 20, 2018	May 19, 2028
	*		– November 20, 2020	November 19, 2030
Yan Zheng	*	0.00001	May 20, 2018	May 19, 2028
	*		– November 20, 2020	November 19, 2030
Alex Zuoli Xu	*		– November 20, 2019	November 19, 2029
	*		– November 20, 2021	November 19, 2031

Note:

* Less than 1% of our total outstanding shares.

As of September 30, 2022, other employees as a group held outstanding options and restricted share units representing 8,903,426 Shares of our Company under the 2018 Plan and the 2019 Plan.

BOARD PRACTICES

Board of Directors

Our Board consists of nine directors. A Director is not required to hold any shares in our company by way of qualification. A Director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or transaction which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made or transaction so consummated. Subject to relevant Nasdaq rules and disqualification by the chairman of the relevant meeting of the Directors, a Director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or transaction or proposed contract or transaction shall come before the meeting for consideration. The Directors may exercise all the powers of the company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled

DIRECTORS AND SENIOR MANAGEMENT

capital or any part thereof, and to issue debentures, debenture stock, bonds, and other securities whether outright or as collateral security for any debt, liability or obligation of the company or of any third party. None of our non-executive Directors have a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees under the Board: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee

Our audit committee consists of Yongjin Fu, Gang Xiao and Andrew Y Yan. Yongjin Fu is the chairman of our audit committee. We have determined that Gang Xiao, Yongjin Fu and Andrew Y Yan satisfy the "independence" requirements of Rule 5605(c)(2) of the Nasdaq rules and Rule 10A-3 under the Exchange Act. We have determined that Yongjin Fu qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

DIRECTORS AND SENIOR MANAGEMENT

Compensation Committee

Our compensation committee consists of Andrew Y Yan, Mr. Zhou and Haisheng Wu. Andrew Y Yan is the chairman of our compensation committee. We have determined that Andrew Y Yan satisfy the "independence" requirements of Rule 5605(a)(2) of the Nasdaq rules. The compensation committee assists the Board in reviewing and approving the compensation structure, including all forms of compensation, relating to our Directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the Board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the Board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. Zhou, Andrew Y Yan and Jiao Jiao. Mr. Zhou is the chairperson of our nominating and corporate governance committee. Andrew Y Yan satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq rules. The nominating and corporate governance committee assists the Board in selecting individuals qualified to become our directors and in determining the composition of the Board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the Board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the Board the current composition of the Board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of Board meetings and monitoring the functioning of the committees of the Board; and

DIRECTORS AND SENIOR MANAGEMENT

- advising the Board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the Board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our Directors owe fiduciary duties to our Company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our Directors must also exercise their powers only for a proper purpose. Our Directors also owe to our company a duty to exercise skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved toward an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our Directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our Company has the right to seek damages if a duty owed by our Directors is breached. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our Directors is breached.

Our Board has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our Board include, among others:

- convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the Board. Our Directors are not subject to a term of office, unless expressly specified in a written agreement between the company and the Director or otherwise, and hold office until such time as they are removed from office by ordinary resolution of the shareholders or by the Board. A Director will be removed from office automatically if, the Director (i) becomes bankrupt or makes any

DIRECTORS AND SENIOR MANAGEMENT

arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing to the company; (iv) without special leave of absence from the Board, is absent from meetings of the Board for three consecutive meetings and the Board resolves that his office be vacated; or (v) is removed from office pursuant to any other provision of the company's memorandum and articles of association.

Board Diversity

Our Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and/or length of service.

Upon the [REDACTED], the nominating and corporate governance committee will from time to time (i) discuss and agree on expected goals to ensure board diversity, and (ii) review and, where necessary, update the board diversity policy to ensure that the policy remains effective.

Our Board comprises nine Directors with a balanced mix of experiences in various sectors, including internet, media, banking and finance, consulting and investment management, including three independent Directors. The age of our Directors ranges from 40 to 64 years old. Our Directors are also of different nationalities, have diverse educational background and possess professional qualifications and skills in various industries and sectors.

In recognition of the importance of gender diversity, our Company is committed to enhancing the gender diversity of the Board. The nominating and corporate governance committee has identified one female candidate, Ms. Jiao Jiao, as a director of the Company and she has been appointed as a director of the Company in November 2022. Going forward, our Company will continue to work towards enhancing the gender diversity of the Board.

MAJOR SHAREHOLDERS

Except as otherwise noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of September 30, 2022 by:

- each of our Directors and executive officers; and
- each person known to us to own beneficially more than 5% of our total outstanding shares.

The calculations in the table below are based on 312,522,703 ordinary shares as of September 30, 2022 (excluding 2,910,315 Shares that were issued to our depository bank and reserved for future grants under our Share Incentive Plans).

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after September 30, 2022, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned			% of Beneficial Ownership ⁽⁹⁾	% of Aggregate Voting Power ^{†(10)}	% of Aggregate Voting Power upon Removal of WVR Structure ⁽¹⁰⁾⁽¹¹⁾	% of Aggregate Voting Power after the [REDACTED] ⁽¹²⁾
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares				
Directors and Executive Officers**:							
Hongyi Zhou ⁽¹⁾	4,948,714	39,820,586	44,769,300	14.3%	75.0%	14.3%	[REDACTED]%
Haisheng Wu ⁽²⁾	*	–	*	*	*	*	[REDACTED]
Eric Xiaohuan Chen	*	–	*	*	*	*	[REDACTED]
Dan Zhao	–	–	–	–	–	–	[REDACTED]
Gang Xiao	–	–	–	–	–	–	[REDACTED]
Yongjin Fu	–	–	–	–	–	–	[REDACTED]
Andrew Y Yan ⁽³⁾	*	–	*	*	*	*	[REDACTED]
Alex Zuoli Xu ⁽⁴⁾	*	–	*	*	*	*	[REDACTED]
Zhiqiang He ⁽⁵⁾	*	–	*	*	*	*	[REDACTED]
Yan Zheng ⁽⁶⁾	*	–	*	*	*	*	[REDACTED]
Jiao Jiao	–	–	–	–	–	–	[REDACTED]
All Directors and Executive Officers as a Group							
	8,998,932	39,820,586	48,819,518	15.6%	75.3%	15.5%	[REDACTED]%
Principal Shareholders:							
Aerovane Company Limited⁽¹⁾							
	–	39,820,586	39,820,586	12.7%	74.5%	12.7%	[REDACTED]%
FountainVest China Capital Partners GP3 Ltd.⁽⁷⁾							
	23,432,634	–	23,432,634	7.5%	2.2%	7.5%	[REDACTED]%
Morgan Stanley⁽⁸⁾							
	16,847,902	–	16,847,902	5.4%	1.6%	5.4%	[REDACTED]%

MAJOR SHAREHOLDERS

Notes:

- * Less than 1% of our total outstanding shares.
 - ** Except as indicated otherwise below, the business address of our Directors and executive officers is Building 2, No. 6 Jiuxianqiao Road, Chaoyang District, Beijing 100015, People's Republic of China.
 - † For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A ordinary shares and Class B ordinary shares as a single class. Each Class A ordinary share is entitled to one vote per share and each Class B ordinary share is entitled to 20 votes per share on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Our Class B ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.
- (1) Represents (i) 39,820,586 Class B ordinary shares held by Aerovane Company Limited, a British Virgin Islands company, which is in turn wholly owned by Mr. Henry Zhiheng Zhou and Ms. Risa Ruoshan Zhou, children of Mr. Hongyi Zhou, the chairman of our Board; (ii) 1,212,000 Class A ordinary shares in the form of ADSs held by Mr. Hongyi Zhou's spouse; (iii) 1,018,192 Class A ordinary shares in the form of ADSs held by Global Pro B Limited, an entity wholly owned by Mr. Hongyi Zhou's spouse; (iv) 434,344 Class A ordinary shares in the form of ADSs in which an affiliate of Mr. Hongyi Zhou had economic interests (but without voting power or the power to direct the disposition) through a financial arrangement; and (v) 2,284,178 Class A ordinary shares in the form of ADSs, in which an affiliate of Mr. Hongyi Zhou had the sole voting power and the sole power to direct the disposition of such ADSs through a financial arrangement. Because of the immediate family relationship and a letter agreement between Mr. Henry Zhiheng Zhou, Ms. Risa Ruoshan Zhou and Mr. Hongyi Zhou, Mr. Hongyi Zhou or his designated entity is entitled to shared voting and dispositive power together with his children relating to the 39,820,586 Class B ordinary shares held by Aerovane Company Limited, and therefore may be deemed to beneficially own these shares according to Rule 13d-3 under the Securities Exchange Act of 1934, as amended. The registered address of Aerovane Company Limited is Start Chambers, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands. For the 2,664,536 Class A ordinary shares in the form of ADSs described in clauses (ii), (iii) and (iv) of this note, although Mr. Hongyi Zhou may be deemed to have shared investment power with respect to these 2,664,536 Class A ordinary shares under Rule 13d-3(a), Mr. Zhou disclaims the beneficial ownership to these ADSs except to the extent his pecuniary interests therein. The number of the ordinary shares is as reported in a Schedule 13D/A filed by Mr. Hongyi Zhou on January 4, 2022.
 - (2) Represents (i) the Class A ordinary shares in the form of ADSs collectively held by Mr. Haisheng Wu and Holy Vanguard Limited, a British Virgin Islands company wholly owned by a trust established for the benefit of Mr. Haisheng Wu, to which Mr. Wu is also the settlor, and (ii) Class A ordinary shares in the form of ADSs that Mr. Wu has the right to acquire upon the exercise of options within 60 days after September 30, 2022.
 - (3) Represents the Class A ordinary shares in the form of ADSs held by Morning Star Resources Ltd. Morning Star Resources Ltd is a British Virgin Islands company wholly owned by a trust established for the benefit of Mr. Andrew Y Yan, to which Mr. Yan is also the settlor.
 - (4) Represents the Class A ordinary shares in the form of ADSs held by Mr. Alex Zuoli Xu.
 - (5) Represents (i) Class A ordinary shares in the form of ADSs collectively held by Mr. Zhiqiang He and True Warrior Limited ("TWL"), a British Virgin Islands company wholly owned by a trust (the "HZQ Trust") established for the benefit of Mr. Zhiqiang He, to which Mr. He is also the settlor, and (ii) Class A ordinary shares in the form of ADSs that Mr. He has the right to acquire upon the exercise of options within 60 days after September 30, 2022. The HZQ Trust was dissolved on March 17, 2022 and the Class A ordinary shares in the form of ADSs beneficially owned by Mr. He were subsequently disposed.

MAJOR SHAREHOLDERS

- (6) Represents (i) Class A ordinary shares in the form of ADSs collectively held by Mr. Yan Zheng and Smart Defender Limited, a British Virgin Islands company wholly owned by a trust established for the benefit of Mr. Yan Zheng, to which Mr. Zheng is also the settlor, and (ii) Class A ordinary shares in the form of ADSs that Mr. Zheng has the right to acquire upon exercise of options within 60 days after September 30, 2022.
- (7) Represents 23,432,634 Class A ordinary shares in the form of 11,716,317 ADSs held by Ruby Finance Holdings Ltd. Ruby Finance Holdings Ltd., is a Cayman Islands company controlled by FountainVest China Capital Partners GP3 Ltd. The number of the Class A ordinary shares is as reported in a Schedule 13D/A jointly filed by Ruby Finance Investment Ltd., Ruby Finance Holdings Ltd. and FountainVest China Capital Partners GP3 Ltd. on January 4, 2022.
- (8) Represents 16,847,902 Class A ordinary shares in the form of ADS beneficially owned by Morgan Stanley, a company incorporated in the State of Delaware of the United States. The number of Class A ordinary shares is as reported in a Schedule 13G filed by Morgan Stanley as a parent holding company jointly with Morgan Stanley Investment Management Company, a corporation incorporated under the laws of Singapore, and Morgan Stanley Investment Funds – Asia Opportunity Fund, a corporation organized under the laws of Luxembourg, on February 11, 2022.
- (9) Represents the interests held by the Directors and executive officers in our Company, including the Class A ordinary shares in the form of ADSs that the relevant individual has the right to acquire upon the exercise of options within 60 days after September 30, 2022.
- (10) Excludes the interests in the Class A ordinary shares in the form of ADSs that the relevant individual has the right to acquire upon the exercise of options within 60 days for the purpose of calculating the voting power of the relevant members of our Company.
- (11) Illustrates the effect of the removal of WVR structure of the Company on the aggregate voting power, as if all of the Class B ordinary shares and Class A ordinary shares had already been converted into ordinary shares on a one-for-one basis on September 30, 2022. For further information on the removal of the WVR structure at the First EGM, see section headed “Share Capital – Our Voting Structure Before and After [REDACTED].”
- (12) Illustrates the effect of the [REDACTED] on the aggregate voting power assuming the presumptions as set out in footnotes (11) and (12) above and that (i) the [REDACTED] becomes unconditional and the [REDACTED] are [REDACTED] pursuant to the [REDACTED], (ii) the [REDACTED] is not exercised and no Shares are issued under the Share Incentive Plans, and (iii) excluding the Shares issued and reserved for the future issuance upon the exercise or vesting of awards granted under our Share Incentive Plans.

To our knowledge, as of September 30, 2022, 268,022,416 of our Class A ordinary shares were held by one record holder in the United States, which is the depository of the ADS program. As of September 30, 2022, none of our Class B ordinary shares are held by U.S. record holders. The number of beneficial owners of the ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our Company.

RELATED PARTY TRANSACTIONS

We are seeking a [REDACTED] on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules, governing connected transactions, does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this document for disclosure purposes only.

CONTRACTUAL ARRANGEMENTS

PRC laws limit foreign ownership in businesses related to (i) provision of value-added telecommunications services in China, including internet information provision services; (ii) micro lending; and (iii) financing guarantee. Due to these restrictions, we operate our relevant business through contractual arrangements with the Principal VIEs. See section headed "Contractual Arrangements."

SHAREHOLDERS AGREEMENT

We entered into our shareholders agreement on September 10, 2018 with our shareholders, which consist of holders of ordinary shares and preferred shares. The shareholders agreement provides for certain special rights, including right of first refusal, co-sale rights, preemptive rights and contains provisions governing the Board and other corporate governance matters. Those special rights, as well as the corporate governance provisions, were automatically terminated upon the completion of our initial public offering and listing on Nasdaq in December 2018.

We have granted certain registration rights to our shareholders pursuant to the shareholders agreement. Set forth below is a description of the registration rights granted under the agreement.

- (a) *Demand registration rights.* Holders of at least 20% or more of the registrable securities then outstanding have the right to demand that we file a registration statement covering at least 20% or more of the registrable securities. We have the right to defer filing of a registration statement for a period of not more than 90 days after the receipt of the request of the initiating holders if we furnish to the holders requesting registration a certificate signed by our president or chief executive officer stating that in the good faith judgment of our Board, it would be materially detrimental to us and our shareholders for such registration statement to be filed at such time. However, we cannot exercise the deferral right more than once in any twelve-month period. We are obligated to effect no more than one registration other than piggyback registration for every 5% of our outstanding share capital on a fully-diluted (by treasury method) basis held by the holders, such percentage to be calculated as of the date immediately following the date of our shareholders agreement.

RELATED PARTY TRANSACTIONS

- (b) *Piggyback registration rights.* If we propose to file a registration statement for a public offering of our securities, we must offer our shareholders an opportunity to include in the registration all or any part of the registrable securities held by such holders. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the registration and the underwriting shall be allocated first to us, second to each of such holders requesting for the inclusion of their registrable securities on a pro rata basis, and third to holders of other securities of ours.
- (c) *Form F-3 registration rights.* Holders of at least 20% or more of the registrable securities then outstanding may request us in writing to file an unlimited number of registration statements on Form F-3. We shall effect the registration of the securities on Form F-3 as soon as practicable, except in certain circumstances.
- (d) *Expenses of registration.* We will bear all registration expenses, other than the underwriting discounts, selling commissions and ADS issuance fees applicable to the sale of registrable securities.
- (e) *Termination of obligations.* We have no obligation to effect any demand, piggyback or Form F-3 or Form S-3 registration immediately after (i) the second anniversary after the occurrence of our initial public offering as defined in the shareholders agreement, or (ii) if, in the opinion of counsel to us, all such registrable securities proposed to be sold may then be sold without registration in any 90-day period pursuant to Rule 144 promulgated under the Securities Act.

TRANSACTIONS WITH 360 GROUP

360 Group is our important business partner. It is considered our related party as it is controlled by Mr. Hongyi Zhou, the chairman of our Board and principal shareholder. We transacted with several entities of 360 Group during the fiscal years 2019, 2020 and 2021, and the six months ended June 30, 2022. 360 Group is one of our borrower acquisition channels, and it provides advertising services to promote our products and general brand through its matrix of mobile applications and services, such as 360 Browser and 360 Mobile Assistant. Advertising services are calculated and charged to us under different formula depending on the form of advertisements, including cost per time (CPT), cost per click (CPC), cost per thousand impression (CPM), cost per action (CPA) and cost per sale (CPS).

For the six months ended June 30, 2022, services provided by 360 Group entities were RMB96.9 million. As of June 30, 2022, RMB152.2 million was due to 360 Group entities, and RMB1.8 million was due from them.

In 2021, services provided by 360 Group entities were RMB168.4 million. As of December 31, 2021, RMB163.1 million was due to 360 Group entities, and RMB1.8 million was due from them.

RELATED PARTY TRANSACTIONS

In 2020, services provided by 360 Group entities were RMB115 million. As of December 31, 2020, RMB32 million was due to 360 Group entities, and RMB3 million was due from them.

In 2019, services provided by 360 Group entities were RMB103 million. As of December 31, 2019, RMB41 million was due to 360 Group entities, and RMB1 million was due from them.

In September 2020, one 360 Group entity transferred to us part of its equity interest in a joint venture company it established with an independent third party. After the equity transfer, we and the 360 Group entity hold 25% and 26% of the equity interest in the joint venture entity, respectively. As part of the arrangement, we are responsible for assisting the joint venture entity in achieving certain performance targets but are not obligated to make whole the loss of the joint venture entity. We accounted for the equity investment using alternative measurement, and the carrying amount as of December 31, 2020 and 2021, and as of June 30, 2022, was nil.

In October 2020, we established a joint venture company in Shanghai, China through Shanghai Qiyu together with one of 360 Group entities and an independent third party, to develop and build the regional headquarters and the affiliated industrial park for 360 Group. The 360 Group entity and us hold 30% and 40% of the equity interests of the joint venture, respectively. In December 2021, we, through Shanghai Qiyu, entered into an equity transfer agreement with the 360 Group entity, pursuant to which Shanghai Qiyu acquired all the 30% equity interests owned by the 360 Group entity in the joint venture entity. Following the completion of the transactions, we hold 70% of the equity interests in the joint venture entity and became its controlling shareholder. Pursuant to the joint venture agreement, the shareholders will contribute initial funding for acquisition of land use rights and funds required for subsequent developments will be mainly financed by external financings with any remaining shortfall funded by the shareholders ratably in proportion to their respective equity interest ownership. We accounted for the investment using equity method. As of June 30, 2022, a total of RMB1.0 billion was contributed by the shareholders to acquire land use rights, of which RMB0.3 billion was funded by non-controlling shareholder.

Framework Collaboration Agreement

We have entered into a framework collaboration agreement with 360 Group in July 2018, pursuant to which:

- *Collaboration on research and development.* We will collaborate in depth with 360 Group on research, development and application of cloud computing and artificial intelligence, as well as big data analysis and application.
- *Advertising services and traffic support.* 360 Group will advertise and provide traffic support to our services through placing links which are directed to our website on its matrix of mobile applications and services, including but not limited to 360 Security Assistant (360安全卫士), 360 Mobile Assistant (360手機卫士), 360

RELATED PARTY TRANSACTIONS

Navigator (360導航), 360 Browser (360瀏覽器) and 360 Search (360搜索). Such services are calculated and charged to us under different formula depending on the form of advertisements with reference to prevailing market prices, and shall be specified in the underlying services agreements.

- *Trademark licensing.* Pursuant to the framework collaboration agreement, 360 Group will license certain trademarks owned by 360 Group and relevant to our businesses to us for our exclusive or non-exclusive use in China (including Hong Kong, Macao Special Administrative Region and Taiwan) for the period of the framework collaboration agreement. In addition, our Group entered into a trademark licensing agreement with 360 Group in July 2021 (the “**Trademark Licensing Agreement**”) to govern the license of certain trademarks by 360 Group to our Group that are either registered or for which registration applications have been filed for fixed fees as agreed between the parties. The license period shall commence on July 1, 2021 and continue in effect until December 31, 2022, subject to an automatic extension of one year if no objection is raised three months prior to the termination date.

Pursuant to the framework collaboration agreement, 360 Group undertakes that it and its related parties (other than our Group) will not conduct loan facilitation services that directly or indirectly compete with us.

In addition, 360 Group agrees that price terms of licensing as well as advertising and promotion it charges to us will be the most favorable within its business partners based on fair market price.

The framework collaboration agreement will remain effective for five years and will be automatically extended for one year thereafter unless 360 Group or we decide to terminate the collaboration.

TRANSACTIONS WITH OTHER RELATED PARTIES

Transactions with Shanghai Qibutianxia

Shanghai Qibutianxia and its subsidiaries are related parties to us, as Shanghai Qibutianxia is an affiliate of Mr. Hongyi Zhou, the chairman of our Board.

We transacted with Shanghai Qibutianxia and its subsidiaries during the fiscal years 2019, 2020 and 2021, and the six months ended June 30, 2022, including receiving loans from Shanghai Qibutianxia, allocating expenses for certain corporate functions historically provided by Shanghai Qibutianxia, and providing borrower referral services to Beijing Qicaitianxia Technology Co., Ltd.

RELATED PARTY TRANSACTIONS

The following table sets forth the transaction amounts for the transactions between Shanghai Qibutianxia and us for the periods presented.

	Transaction amounts <i>(RMB)</i>
For services provided by Shanghai Qibutianxia and its subsidiaries to us	2019: 25.9 million 2020: 29.3 million 2021: 354.7 million 2022 6M: 221.4 million
For services provided by us to Shanghai Qibutianxia and its subsidiaries	2019: 929.8 million 2020: 126.0 million 2021: 1.4 million 2022 6M: nil
Amounts due from Shanghai Qibutianxia and its subsidiaries to us	2019: 405.5 million 2020: 6.6 million 2021: 0.2 million 2022 6M: 0.2 million
Amounts due from us to Shanghai Qibutianxia and its subsidiaries	2019: 15.1 million 2020: 37.9 million 2021: 40.7 million 2022 6M: 16.3 million
Outstanding loan under joint back-to-back guarantee arrangement with Shanghai Qibutianxia	2019: N/A 2020: 19.3 billion 2021: 11.8 billion 2022 6M: 7.1 billion

Transactions with Jinshang Consumer Finance Co., Ltd.

Jinshang Consumer Finance Co., Ltd. (“**Jinshang**”) is a related party to us, as Jinshang is an affiliate of Mr. Hongyi Zhou, the chairman of our Board.

We transacted with Jinshang during the fiscal years 2019, 2020 and 2021, and the six months ended June 30, 2022 as we provide loan facilitation services and post-facilitation services to Jinshang and charge service fees. Historically, we directly collected payments from borrowers. Starting in 2018, we contractually changed our payment flow model by collecting service fee payments from Jinshang directly.

RELATED PARTY TRANSACTIONS

The following table sets forth the transaction amounts for the transactions between Jinshang and us for the periods presented.

	Transaction amounts <i>(RMB)</i>
For services provided by us to Jinshang	2019: 103.3 million 2020: 198.6 million 2021: 288.9 million 2022 6M: 99.0 million
Amounts due from Jinshang to us	2019: 50.7 million ⁽¹⁾ 2020: 158.7 million ⁽²⁾ 2021: 194.1 million ⁽³⁾ 2022 6M: 201.0 million ⁽⁴⁾

Notes:

- (1) Among which the amounts due from Jinshang related to loan facilitation and post-facilitation services were RMB32.5 million, net of allowance of RMB18.8 million.
- (2) Among which the amounts due from Jinshang related to loan facilitation and post-facilitation services were RMB66.0 million, net of allowance of RMB6.3 million.
- (3) Among which the amounts due from Jinshang related to loan facilitation and post-facilitation services were RMB135.4 million, net of allowance of RMB15.7 million.
- (4) Among which the amounts due from Jinshang related to loan facilitation and post-facilitation services were RMB117.9 million, net of allowance of RMB17.1 million.

Transactions with Kincheng Bank of Tianjin Co., Ltd.

Kincheng Bank of Tianjin Co., Ltd. (“**Kincheng Bank**”) is a related party to us, as Kincheng Bank is an affiliate of Mr. Hongyi Zhou, the chairman of our Board.

We transacted with Kincheng Bank during the fiscal years 2020 and 2021, and the six months ended June 30, 2022 as we provide loan facilitation services and post-facilitation services to Kincheng Bank and charge service fees.

RELATED PARTY TRANSACTIONS

The following table sets forth the transaction amounts for the transactions between Kincheng Bank and us for the periods presented.

	Transaction amounts <i>(RMB)</i>
For services provided by us to Kincheng Bank	2020: 15.7 million 2021: 1,880.5 million 2022 6M: 685.7 million
Amounts due from Kincheng Bank to us	2020: 13.5 million ⁽¹⁾ 2021: 771.3 million ⁽²⁾ 2022 6M: 572.3 million ⁽³⁾

Notes:

- (1) Loan facilitation and post-facilitation services was RMB15.1 million, net of allowance of RMB1.1 million.
 - (2) Loan facilitation and post-facilitation services of RMB823.6 million, net of allowance of RMB106.3 million.
 - (3) Loan facilitation and post-facilitation services of RMB490.2 million, net of allowance of RMB108.1 million.
- * We have held bank deposit with Kincheng Bank, which amounted to RMB320 million as of December 31, 2021. For more details, see Note 10 of the Accountants’ Report in Appendix IA.

OTHER RELATED PARTY TRANSACTIONS

Employment agreements and Indemnification Agreements

See “Directors and Senior Management – Compensation – Service Agreements and Indemnification Agreements” for a description of the employment agreements and indemnification agreements we have entered into with our directors and executive officers, which we consider to be related party transactions.

Share Incentive Plans

See “Directors and Senior Management – Compensation – Share Incentive Plans” for a description of the share-based compensation awards we have granted to our Directors and executive officers, which we consider to be related party transactions.

REGULATORY OVERVIEW

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or our shareholders’ rights to receive dividends and other distributions from us.

REGULATIONS ON FOREIGN INVESTMENT RESTRICTIONS

The Foreign Investment Law

On March 15, 2019, the NPC approved the Foreign Investment Law (《中華人民共和國外商投資法》), which came into effect on January 1, 2020, replaces the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), and has become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law sets out the basic regulatory framework for foreign investments and proposes to implement a system of pre-entry national treatment with a negative list for foreign investments, pursuant to which (i) foreign entities and individuals are prohibited from investing in the areas that are not open to foreign investments, (ii) foreign investments in the restricted industries must satisfy certain requirements under the law, and (iii) foreign investments in business sectors outside of the negative list will be treated equally with domestic investments. The Foreign Investment Law also sets forth necessary mechanisms to facilitate, protect and manage foreign investments and proposes to establish a foreign investment information report system, through which foreign investors are required to submit information relating to their investments to MOFCOM or its local branches.

The Implementing Regulation for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (Decree No. 723 of the State Council), adopted at the 74th executive meeting of the State Council on December 12, 2019 and effective on January 1, 2020, provides implementing measures and detailed rules to ensure the effective implementation of the Foreign Investment Law.

Regulations on foreign investment industries

The NDRC and the MOFCOM issued the Guiding Catalog for Foreign Investment Industries (2017 Revision) (《外商投資產業指導目錄》(2017版)) (the “**Foreign Investment Catalog**”), in June 2017. In accordance with this catalog, foreign investment industries are divided into three categories: the “encouraged category,” the “restricted category” and the “prohibited category,” and foreign investments in industries that are not mentioned under the foregoing categories are generally deemed permitted. The Foreign Investment Catalog was further revised on January 27, 2021, and is subject to review and update by the Chinese government from time to time. Moreover, the NDRC and the MOFCOM promulgated the Negative List (2021) on December 27, 2021, effective on January 1, 2022. The Negative List (2021) repeals the “restricted” and “prohibited” categories stipulated in the Foreign Investment Catalog.

REGULATORY OVERVIEW

On December 30, 2019, the MOFCOM and the SAMR jointly issued the Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which replaced the existing filing and approval procedures regarding the establishment and change of foreign-invested companies. On December 31, 2019, the MOFCOM issued the Announcement on Matters Relating to Foreign Investment Information Reporting (《關於外商投資信息報告有關事項的公告》) which emphasizes the information reporting requirements provided by the Measures on Reporting of Foreign Investment Information, and stipulates the forms for information reporting.

Regulations on value-added telecommunications services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) issued by the PRC State Council in September 2000, as amended in February 2016, set out a regulatory framework for telecommunications service providers in the PRC. Under these regulations, telecommunications service providers are required to procure operating licenses for basic telecommunications services and licenses for value-added telecommunications services, or individually, a VATS license. In July 2017, the MIIT, issued the Administrative Measures for the Telecommunications Business Operating Permit (《電信業務經營許可管理辦法》) which took effect in September 2017 and invalidated the prior telecommunications permit measures issued in 2009. The Administrative Measures for the Telecommunications Business Operating Permit regulate that a commercial operator of value-added telecommunications services must first obtain the VATS license and conduct its business in accordance with the specifications listed in the VATS license, thereby providing more detailed requirements and procedures for the value-added telecommunications services industry. In September 2000, the PRC State Council promulgated the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), which was amended in January 2011 and effective immediately. The Administrative Measures on Internet Information Services define "internet information services" as the services providing information through the internet to online users and further divide such services into "commercial internet information services" and "non-commercial internet information services." ICP is considered as a sub-set of value-added telecommunications business. In accordance with the Administrative Measures on Internet Information Services, commercial internet information services operators must obtain a VATS license with the business scope of Internet information service, namely, the Internet Content Provider License, or the ICP License, from competent government authorities before engaging in any commercial internet information services business in the PRC.

The Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), issued by the PRC State Council in December 2001 and amended in September 2008, February 2016 and March 2022, respectively, and the Circular on Lifting Restrictions on the Proportion of Foreign Equity in Online Data Processing and Transaction Processing Business (Operating E-commerce) (《關於放開線上資料處理與交易處理業務(經營類電子商務)外資股比限制的通告》) issued by the MIIT on June 19, 2015, clarify that foreign-invested value-added telecommunications enterprises may only be Sino-foreign equity joint ventures, whose foreign equity ownership may not exceed 50%, except for online data processing and transaction processing businesses (operating e-commerce

REGULATORY OVERVIEW

businesses) which may be wholly owned by foreign investors. Historically, foreign investors having equity ownership in those foreign-invested value-added telecommunications enterprises are required to have a good track record and operational experience in value-added telecommunications businesses. On March 29, 2022, the State Council promulgated the Decision of the State Council on Amending or Abolishing Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》), effective on May 1, 2022, which stipulate that the requirements of the aforementioned operational experience and good track record on foreign investors of a value-added telecommunications service provider are no longer required.

Additionally, in July 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Businesses (《關於加強外商投資經營增值電信業務管理的通知》), which stipulates that foreign investors can only operate telecommunications businesses in China through telecommunications enterprises with valid telecommunications business operation licenses and prohibits a domestic company that holds a VATS license from leasing, transferring or selling such license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities to foreign investors that conduct a value-added telecommunications business illegally in China.

We provide Credit-Tech services for which a VATS license is required through Shanghai Qiyu, one of our VIEs, which obtained its ICP license, a type of VATS license, in April 2021.

REGULATIONS ON ONLINE FINANCE SERVICES INDUSTRY

General regulations on internet finance service

In July 2015, the Guidelines on Promoting the Healthy Growth of Internet Finance (《關於促進互聯網金融健康發展的指導意見》) (the “**Fintech Guidelines**”), were promulgated by ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC, and provide the definition of “online lending.” Online lending under the Fintech Guidelines includes peer-to-peer online lending, meaning the direct loans transacted through the internet between individual lenders and borrowers, and online micro lending, meaning the small-sum loans transacted through the internet and offered by online micro-lending companies.

In April 2016, the General Office of the PRC State Council issued the Implementing Proposal for the Special Rectification of Internet Financial Risk (《互聯網金融風險專項整治工作實施方案》), which emphasizes the goal to ensure legitimacy and compliance of the internet finance service industry and specifies the rectification measures for non-compliance regarding the operations of internet finance business and by institutions engaged in the internet finance business.

REGULATORY OVERVIEW

Regulations on private lending

According to the PRC Civil Code (《中華人民共和國民法典》), promulgated in May 2020 and effective on January 1, 2021, the interest rates charged under a loan agreement must not violate applicable provisions of the PRC laws and regulations. The PRC Civil Code also provides that the interest on a loan shall not be deducted from the principal in advance, and if the interest is deducted from the principal in advance, the loan shall be repaid and the interest shall be calculated according to the actual amount of loan provided.

In August 2015, Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases (《關於審理民間借貸案件適用法律若干問題的規定》), or the Private Lending Judicial Interpretation, was issued by the Supreme People's Court and took effect in September 2015. The Private Lending Judicial Interpretation, as most recently revised on December 29, 2020, defines private lending as financing between and among individuals, legal entities and other organizations. The Private Lending Judicial Interpretation establishes that private lending contracts are to be upheld as valid in the absence of (i) relending of funds to a borrower who knew or should have known that the funds were fraudulently obtained from a financial institution; (ii) relending of funds to a borrower who knew or should have known that the funds were borrowed from other enterprises or raised by the company's employees; (iii) lending of funds to a borrower wherein the investor knew or should have known that the borrower intended to use the borrowed funds for illegal or criminal purposes; (iv) violations of public orders or good morals; or (v) violations of mandatory provisions of laws or administrative regulations. In addition, pursuant to the Private Lending Judicial Interpretation, lending agreements between private lenders and borrowers with annual interest rates below 24% are valid and enforceable. As to the loans with annual interest rates between 24% (exclusive) and 36% (inclusive), if the interest on the loans has already been paid to the lender voluntarily, and so long as such payments have not damaged the interest of the state, the community and any third party, the People's Court will turn down the borrower's request to demand the return of the excess interest payments. If the annual interest rate of a private loan is higher than 36%, the agreement on the excess part of the interest is invalid, and if the borrower requests the lender to return the part of interest exceeding 36% of the annual interest that has been paid, the People's Court will support such requests.

In addition, on August 4, 2017, the Supreme People's Court issued the Circular of Several Suggestions on Further Strengthening the Judicial Practice Regarding Financial Cases (《關於進一步加強金融審判工作的若干意見》), which provides that (i) the claim of the borrower under a financial loan agreement to adjust or cut down the part of interest exceeding 24% per annum on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees collectively claimed by the lender is obviously high shall be supported by the PRC courts and (ii) in the context of internet finance disputes, if the online lending information intermediaries and the lender evade the maximum interest rate protected under the law by charging an intermediary fee, the lender's claim shall be held as invalid.

REGULATORY OVERVIEW

On August 20, 2020, the Supreme People's Court issued the Decision on Amending the Provisions of the Supreme People's Court on Several Issues the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於修改〈關於審理民間借貸案件適用法律若干問題的規定〉的決定》), or the Judicial Interpretation Amendment, which was revised on January 1, 2021 and amended several provisions of the 2015 Judicial Interpretation including the upper limit of judicial protection for private lending interest rates. The Judicial Interpretation Amendment provides that where the lender requests the borrower to pay interest in accordance with the interest rate agreed upon in the agreement, the People's Court shall support such request, except where the interest rate agreed by both parties exceeds four times of the one-year Loan Prime Rate at the time of the establishment of the agreement, or the Quadruple LPR Limit. The one-year Loan Prime Rate refers to the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center, an institution authorized by the PBOC, on the 20th of each month since August 20, 2019. According to the Judicial Interpretation Amendment, the upper limits of interest rates of 24% and 36% provided in the 2015 Judicial Interpretation, are replaced by the Quadruple LPR Limit. Moreover, if the lender and the borrower agree on both the overdue interest rate and the liquidated damages or other fees, the lender may choose to claim any or all of them, but the excess of the aggregate amount over the Quadruple LPR Limit shall not be supported by the People's Court. The Judicial Interpretation Amendment applies to new first-instance cases of private lending disputes received by the People's Court after the implementation of the Judicial Interpretation Amendment on August 20, 2020. If the lending activity occurred before August 20, 2019, the upper limit of the protected interest rate equals four times of the one-year Loan Prime Rate at the time of the plaintiff's filing of lawsuit.

On December 29, 2020, the Supreme People's Court issued the Supreme People's Court Reply, which clarified that seven types of local financial organizations, including micro-lending companies, financing guarantee companies, regional equity markets, pawnshops, financing lease companies, commercial factoring companies and local asset management companies under the regulation of local financial regulatory authorities, are financial institutions established upon approval by financial regulatory authorities. The Judicial Interpretation Amendment is not applicable to disputes arising from foregoing organizations' engagements in relevant financial service businesses.

Although the Judicial Interpretation Amendment and the Supreme People's Court Reply Concerning the Scope of Application of the New Judicial Interpretation on Private Lending (《最高人民法院關於新民間借貸司法解釋適用範圍問題的批復》) provide that they do not apply to licensed financial institutions including micro-lending companies that conduct loan and Credit-Tech businesses, there are uncertainties in the interpretation and implementation of the Judicial Interpretation Amendment, including whether licensed financial institutions may be subject to it pursuant to under Circular 141 or in certain circumstances, the basis of the formula used to determine the interest rate limit, the scope of inclusion of related fees and insurance premiums and inconsistencies in the standard applied and enforcement actions taken by different PRC courts.

REGULATORY OVERVIEW

We conduct loan facilitation services through our Credit-Tech platform. We charge service fees from financial institution partners for loans funded by them, and charge borrowers interest fees through Fuzhou Microcredit, which is a subsidiary of our VIEs and is licensed to conduct micro-lending business in China, for loans funded by it. Our financial institution partners and Fuzhou Microcredit are permitted to charge interests for the loans they fund pursuant to relevant PRC laws and regulations.

Regulations on illegal fund-raising

On January 26, 2021, the State Council promulgated the Regulation on the Prevention and Disposition of Illegal Fund-raising Practices (《防範和處置非法集資條例》) which came into effect on May 1, 2021 and replaces the Measure for the Banning of Illegal Financial Institution and Illegal Financial Business Operations (《非法金融機構和非法金融業務活動取締辦法》) promulgated by PRC State Council in July 1998 and amended in 2011, and the Circular on Relevant Issues Concerning the Penalty on Illegal Fund-Raising issued by the General Office of PRC State Council in July 2007, which explicitly prohibits illegal public fund-raising. In accordance with the aforementioned regulations, the following description is deemed to detail the key features of illegal public fund-raising: (i) soliciting and raising funds from the general public by means of issuing stocks, bonds, lotteries or other securities without the required approval, (ii) promising or guaranteeing a return of interest or profits or investment returns in cash, properties or other forms, or (iii) using a legitimate form to disguise the unlawful purpose. In December 2010, the Supreme People's Court promulgated the Judicial Interpretations to Issues Concerning Applications of Laws for Trial of Criminal Cases on Illegal Fund-Raising (《最高人民法院關於審理非法集資刑事案件具體應用法律若干問題的解釋》) which was amended on March 1, 2022 and sets forth the criteria, criminal charges and the punishment on illegal fund-raising.

We operate a Credit-Tech platform to facilitate loans between borrowers and our financial institution partners, and we do not fund the loans facilitated through our platform, other than the loans funded by Fuzhou Microcredit, a subsidiary of our VIEs licensed to conduct micro-lending business in China. We do not raise funds from our financial institution partners to provide loans to borrowers.

Regulations on the business of loans facilitation

In April 2017, the P2P Online Lending Working Group issued the Notices on Cash Loans. The Notices on Cash Loans require the local branches of the P2P Online Lending Working Group to conduct a comprehensive review and inspection of the cash loan business on online lending platforms and require such platforms to take necessary improvements and remediation measures within a specific period of time to comply with the relevant requirements under the applicable PRC laws and regulations. The Notices on Cash Loans aim to eliminate non-compliance in the operations of online lending platforms, including fraudulent activities, loans with excessive interest rates, and forced loan collection practices.

REGULATORY OVERVIEW

Circular 141 issued by the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group on December 1, 2017, introduces the regulating guidance on cash loan businesses including online micro-lending companies, P2P platforms and banking financial institutions. According to Circular 141, activities offering cash loans, which are characterized by the lack of specific consumption scenarios, designated purposes, targeted users or mortgages, are subject to inspections and rectifications to prohibit excessive borrowing and granting credits repeatedly to individual borrowers, collecting interests at abnormally high interest rates and violating privacy. Circular 141 clarifies that no organization or individual shall start a loan business without the required qualifications and approved licenses. The synthetic fund cost charged by various institutions on borrowers in the form of interest rates and other fees must comply with the requirements of private lending by the Supreme People's Court. The loan shall not be collected through violence, intimidation or insult. Circular 141 also sets out requirements and limitations for various entities involved in internet finance services and banking financial institutions involved in cash loan operations.

Circular 141 further requires P2P lending information intermediaries not to outsource their core operations such as borrower information collection, borrower selection, credit evaluation and accounts opening. The banking financial institutions, in addition to observing the requirements set forth in the Interim Measures on Administration of Personal Loans issued by the CBRC in February 2010, shall also comply with the regulations relating to cash loans, including: (i) not extending loan funded by its own capital and funding from unqualified institutions; (ii) not outsourcing credit review and approval, risk management or other core operations in the provision of credit services to third-party collaborators; including not accepting credit enhancement services, loss-bearing commitments or other credit enhancement services provided in a disguised form by any third party that does not have relevant qualifications to provide guarantees; (iii) making sure that the third party with which it cooperates will not charge any interests or fees from borrowers; and (iv) not directly investing or investing in a disguised form in asset-backed securitization products or other products backed by cash loans, campus loans or down payment loans. In addition, according to Circular 141, all the relevant local authorities should submit the regulation plan and monthly working progress to the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group, which indicates gradual rectification for compliance with Circular 141 is allowed.

The Interim Measures for Administration of Internet Loans Issued by Commercial Banks (《商業銀行互聯網貸款管理暫行辦法》), or the Internet Loans Interim Measures, promulgated by the CBIRC, came into effect on July 12, 2020 and was amended on June 21, 2021, which apply to the institutions cooperating with commercial banks to develop internet loan businesses and their existing business models. Pursuant to the Internet Loans Interim Measures, commercial banks shall evaluate their cooperating institutions and implement processes to manage these institutions. Commercial banks shall not accept direct and disguised credit enhancement services from unqualified cooperation agencies, nor entrust third-party agencies with records of violent collection or other illegal records to collect loans. The Internet Loans Interim Measures also provide that, except for cooperating institutions that contribute funding to the loans, commercial banks shall not completely delegate the cooperating

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institutions to perform core operations, such as loan disbursement, principal and interest collection, and stop payment. Pursuant to Internet Loans Interim Measures, commercial banks shall independently carry out risk assessment and credit approval for the loans they fund, and shall bear primary responsibility for post-loan management. Regional banks that carry out Internet lending business shall mainly serve local customers, prudently conduct business across administrative regions of registration, and effectively identify and monitor the development of business across administrative regions of registration. As we operate a Credit-Tech platform and collaborate with financial institution partners in the loan lifecycle, pursuant to Internet Loans Interim Measures, we shall not participate in the independent risk management and credit approval processes for the loans funded by commercial banks. We are not involved in financial institutions' independent credit review and approval and risk management operations. We assist in financial institutions' post-loan management as instructed or delegated by them and the financial institutions still bear the primary responsibility, among others, in compliance with the Internet Loans Interim Measures.

In accordance with the above measures, the Internet Loans Circular was issued and took effect on February 19, 2021, setting detailed rules on strengthening risk management of the banking financial institutions and strictly controlling cross-regional operations. Furthermore, on July 12, 2022, CBIRC issued the Notice on Strengthening the Management of Commercial Banks' Internet Loan Business and Improving the Quality and Efficiency of Financial Services (《中國銀保監會關於加強商業銀行互聯網貸款業務管理提升金融服務質效的通知》(銀保監規[2022]14號)), which further requires commercial banks to: (i) effectively conduct security assessments on the cooperating institutions which provide and process personal information; (ii) strengthen loan fund management, take effective measures to monitor loan usage, ensure safety of the loan funds, and prevent cooperating institutions from intercepting, pooling, or misappropriating fund; (iii) standardize the Internet loan cooperation business with third-party institutions, and restrict or refuse to cooperate with those that are in violation of relevant regulations on Internet loans; and (iv) strengthen the protection of consumer rights and interests, strengthen the compliance management of the marketing and publicity behaviors of cooperating institutions, and clearly stipulate relevant prohibited behaviors in the cooperation agreement. The transition period for the stock business of Internet loans of commercial banks will end on June 30, 2023. During the transition period, new Internet loans businesses of commercial banks shall meet the requirements of the Internet Loans Interim Measures, the Internet Loans Circular and this Notice.

The Notice on Strengthening the Management of Commercial Banks' Internet Loan Business and Improving the Quality and Efficiency of Financial Services mainly regulates the conducts of commercial banks. Nevertheless, we have taken and may further take measures in furtherance of our goal of maintaining compliance, including: (i) supplementing and improving the content of the cooperation agreement with relevant financial institutions at their request; and (ii) strictly implementing the relevant requirements of financial institutions partners for their security assessment and compliance management. As of the Latest Practicable Date, we have complied with the relevant requirements of financial institution partners for their security assessment and compliance management, and will keep communicating with the financial institution partners and adjust our relevant practice such as supplementing and improving the

REGULATORY OVERVIEW

content of the cooperation agreement and internal policies at their requests in a timely manner. We believe such measures we have taken or may take will not cause an material adverse impact on the business operations and financial conditions of our Group. We will closely monitor the regulatory requirements, seek guidance from relevant regulatory authorities and take applicable measures in a timely manner to maintain our cooperation with the commercial banks and ensure compliance with relevant laws and regulations applicable to us.

In addition, we have taken various measures to comply with the Circular 141, the Internet Loans Interim Measures and other laws and regulations that are applicable to our loans facilitation business operations:

- *Operation of Credit-Tech business in general.* We deploy 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, manage credit risks and improve collection strategies and efficiency, among others. We act as a technology enabler in the credit service process between financial institution partners and borrowers. For example, through the deployment of technologies, we make recommendations of prospective borrowers' profiles to financial institution partners and conduct preliminary credit assessment to facilitate their final risk management and credit decision making. We are not involved in financial institutions' independent credit review and approval and risk management operations, among others.
- *Guarantee practice.* We neither collected guarantee fees from our financial institution partners, nor took providing guarantees as our main business through our non-licensed subsidiaries, while historically a Consolidated Affiliated Entity that had not obtained the financing guarantee license provided guarantees or other credit enhancement services to certain financial institution partners. Under such model, the non-licensed Consolidated Affiliated Entity could be deemed as operating financing guarantee business and therefore non-compliant with Circular 141 and the Supplementary Financing Guarantee Provisions. We no longer entered into any new framework agreement since the beginning of 2019, under which we provided guarantee or other credit enhancement services to financial institution partners through the non-licensed Consolidated Affiliated Entity and have completely ceased such practice through the non-licensed Consolidated Affiliated Entity since September 2020. Please refer to "Business – Legal Proceedings and Compliance – Compliance Matters – Circular 141 and Supplementary Financing Guarantee Provisions" for details. As is common in the industry according to iResearch, it took some time for us to completely rectify the historical credit enhancement model mainly because: (i) we needed time to bring proper closures to the existing businesses which were generated under the historical cooperation agreements with our financial institution partners; and (ii) our financial institution partners needed time to change the cooperation model due to their long internal process. Considering that: (i) we had not been subject to any administrative fines or penalties during the

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Track Record Period and up to the Latest Practicable Date due to such past practice; (ii) we have ceased such practice in September 2020 and thereafter did not provide any relevant guarantees or other credit enhancement services through the non-licensed Consolidated Affiliated Entity to our financial institution partners for loans facilitated through our platform; (iii) on July 12, 2022, our PRC Legal Adviser verbally conducted consultation with an officer in the local government authority in Shanghai who confirmed the authority is responsible for investigations and daily supervisions of the financial guarantee business and is the competent authority to provide that confirmation; our PRC Legal Adviser made the local government authority in Shanghai aware that we did not provide any guarantee or other credit enhancement services through the non-licensed Consolidated Affiliated Entity to new loans facilitated through our platform since September 2020, and was informed that we would not be imposed any fine or penalty with regard to in connection with our past practice for providing all relevant guarantees and other credit enhancement services through the non-licensed Consolidated Affiliated Entity to the new loans facilitated through our platform from the implementation of such provisions up to 2021 that may be deemed to be inconsistent with certain requirements under Circular 141 and the Supplementary Financing Guarantee Provisions; and (iv) on October 17, 2022, our PRC Legal Adviser further conducted a verbal consultation with an officer of Shanghai Financial Regulatory Bureau, who confirmed that if that local government authority in Shanghai considers not imposing any fine or penalty, the Shanghai Financial Regulatory Bureau will generally respect the conclusion of that local government authority in Shanghai, our PRC Legal Adviser is of the view that such government authority is a competent authority and the officer consulted is competent to provide the above confirmations. As advised by our PRC Legal Adviser, the risk that we would be subject to material administrative penalties by relevant authorities for such past practice in accordance with Circular 141 and the Supplementary Financing Guarantee Provisions is remote. Please refer to “Business – Legal Proceedings and Compliance – Compliance Matters – Circular 141 and Supplementary Financing Guarantee Provisions” for details. Currently, third-party financing guarantee companies or the licensed Consolidated Affiliated Entity provides guarantee or other credit enhancement services to our financial institution partners. We engage third-party guarantee companies to provide guarantee services according to the commercial arrangements of the financial institution partners and because the relevant regulations impose a cap on the outstanding guarantee liabilities of the licensed Consolidated Affiliated Entity.

- *Payment.* We have adopted a payment model and applied it to our cooperation with all financial institution partners. Under our payment model, we do not charge interests to borrowers for loans funded by our financial institution partners; instead, we charge service fees to financial institutions. In certain cases, some financial institution partners further engage us and a third-party payment system service provider to arrange payment clearance together, pursuant to which arrangement borrowers first repay to a third-party payment system and we work together with the payment system service provider to split the total repayment amount, including

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principal, interest and service fees, to the portions that financial institution partners and we are each entitled to. The third-party payment service providers are engaged per our financial institution partners’ request and are mainly for the purpose of general payment processing and clearance. We do not charge any interests or service fees from borrowers under our payment model for loans funded by our financial institution partners.

- *Product pricing.* In accordance with the evolution of regulatory environments, we have lowered our product pricing, which is calculated based on the internal rate of return methodology. We may further adjust our product pricing from time to time as a result of changes in regulations or our business strategies. If we are unable to keep up with the evolution of regulations and maintain compliance or are deemed to price loans at a rate that exceed the regulatory limits, we could be ordered to suspend, rectify or terminate our practices or operations, subject to cancellation of qualifications, or ordered to relinquish the excessive portion of the interest income. If any of these occurs, our business, financial condition, results of operations and our cooperation with financial institution partners could be materially and adversely affected as a result.

As advised by our PRC Legal Adviser, up to the Latest Practicable Date, our Significant Subsidiaries in China comply with the applicable existing effective laws and regulations in all material respects. However, given that the laws and regulations governing the loan facilitation business are evolving, and substantial uncertainties exist with respect to their interpretation and implementation, we cannot assure you that our existing practices would not be challenged by governmental authorities under any existing or future rules, laws and regulations. See also “Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of the loan facilitation business. If any of our business practices are deemed to be non-compliant with applicable laws and regulations, our business, financial condition and results of operations would be adversely affected.”

If institutions violate the aforementioned provisions, the regulatory authorities may impose business suspensions, compulsory enforcements or cancelation of business qualifications, or supervise the rectifications. If the circumstances are extremely serious, the business licenses of such institutions may be revoked.

Regulations on online lending information intermediaries

In August 2016, the CBRC, the MIIT, the MPS and the State Internet Information Office jointly issued the Interim Lending Measures on Administration of Business Activities of Online Lending Information Intermediaries (《網絡借貸信息中介機構業務活動管理暫行辦法》), which introduced online lending information intermediaries as financing information enterprises specifically engaged in the business of lending information intermediation services connecting investors and borrowers. Pursuant to that, online lending information service providers must complete registration with local financial regulatory departments, apply for

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appropriate telecommunication business licenses in accordance with relevant rules issued by competent telecommunication authorities and specify the “online lending information intermediary” in its business scope.

In accordance with these measures, the CBRC, the MIIT and the SAIC jointly issued the Circular on Printing and Distribution the Guidelines on the Filing-based Administration of the Online Lending Information Intermediaries (《網絡借貸信息中介機構備案登記管理指引》) in October 2016, setting forth the rules on the filing-based administrative regime of online lending information intermediaries which requires local financial regulators to register, publicize and archive the basic information of online lending information intermediaries within their respective jurisdictions.

In November 2019, the Special Rectification of Internet Financial Risks Working Group and the P2P Credit Risks Rectification Working Group issued the Guiding Opinions on the Transformation of Online Lending Information Intermediaries into Pilot Micro-Lending Companies (《關於網絡借貸信息中介機構轉型為小額貸款公司試點的指導意見》), or the Circular 83. The Circular 83 allows qualified online lending information intermediaries to transform into micro-lending companies in order to proactively deal with and resolve the existing business risks of online lending information intermediaries industry. The online lending information intermediaries to be transformed must comply with certain requirements including strong shareholder backgrounds and a registered capital of RMB50 million.

Regulations on online marketing of financial products

On December 31, 2021, the PBOC and six other departments jointly issued the Measures for Administration of Online Marketing of Financial Products (Draft for Comments) (《金融產品網絡營銷管理辦法(徵求意見稿)》), (the “**Draft Online Marketing Measures**”), which regulate online marketing of financial products by financial institutions or internet platform operators entrusted by such financial institutions. The Draft Online Marketing Measures prohibit third-party online platform operators from being involved in the sales process of financial products in a disguised way without the approval of financial regulatory authorities, including but not limited to interactive consultation with consumers on financial products, suitability evaluation of consumers of financial products, signing of sale contracts, transfer of funds and participation in the income sharing of financial business. Suitability evaluation of consumers of financial products means, according to the Guiding Opinions of General Office of the State Council on Strengthening the Protection of Rights and Interests of Financial Consumers (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》) promulgated on November 4, 2015, the system for evaluating the preference, cognition and tolerance of risks for consumers of financial product in order to provide financial products and services that fit such consumers. We do not conduct suitability evaluation of consumers of financial products. Instead, we utilize technologies to conduct preliminary credit assessment on prospective borrowers and match such prospective borrowers with financial institution partners. As of the Latest Practicable Date, the Draft Online Marketing Measures have not been formally adopted and it is uncertain when the final regulations will be issued and take effect, and how they will be interpreted and implemented.

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As advised by our PRC Legal Adviser, considering the Draft Online Marketing Measures specifically provide that (i) third-party online platforms shall use the online marketing and publicity content reviewed and determined by financial institutions in promoting and recommending financial products to prospective borrowers, and (ii) financial institutions that entrust operators of third-party online platforms to carry out online marketing of financial products shall assume management responsibilities, the Draft Online Marketing Measures do not forbid third-party online platform operators entrusted by such financial institutions to carry out internet marketing activities of financial products. Therefore, as advised by our PRC Legal Adviser, under the Draft Online Marketing Measures, our online platform entrusted by financial institutions is allowed to conduct online marketing under our embedded financial model, intelligent marketing services or other platform services provided to financial institutions as long as (i) we are not involved in the aforementioned sale process of financial product and (ii) the operations of our online platform continue to be entrusted by financial institutions pursuant to relevant laws and regulations. Nevertheless, certain service fees we charge from financial institution partners are based on loan volume and interest rate, which may be recognized as participating in the income sharing of financial business in a disguised way. According to the Draft Online Marketing Measures, we may be required to adjust the way we charge financial institutions. If the Draft Online Marketing Measures take effect in its current form, we will consult and negotiate with our financial institution partners to make the necessary adjustments on cooperation agreements as required by the authorities and our financial institution partners to ensure compliance. Meanwhile, the Draft Online Marketing Measures provide a 6-month grace period from its effectiveness date for companies to make adjustments and become compliant with the provisions therein. If the Draft Online Marketing Measures are adopted in their current form, we believe the adjustment of the service fee arrangement will not have a material adverse effect on the cooperation between the financial institutions and us or our revenues.

Based on our current assessment, we are of the view that such measures we may take will not cause any adverse impact on the business operation and financial condition of our Group. In addition, since the Draft Online Marketing Measures do not prohibit third-party online platform operators entrusted by financial institutions from carrying out internet marketing activities of financial products, we are allowed to use the proceeds to conduct further online marketing and collaborate with other online platform operators to the extent permitted by the relevant laws and regulations. We will closely monitor the regulatory development and adjust our business operations from time to time to comply with relevant laws and regulations applicable to us. See also "Risk Factors – Risks Relating to Our Business and Industry – Our access to sufficient and sustainable funding at reasonable costs cannot be assured. If we fail to maintain collaboration with our financial institution partners or to maintain sufficient capacity to facilitate loans to borrowers, our reputation, results of operations and financial condition may be materially and adversely affected."

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Regulations on micro-lending business

In May 2008, Guidance on the Pilot Establishment of Micro-Lending Companies (《關於小額貸款公司試點的指導意見》) was jointly promulgated by the CBRC and the PBOC, authorizing provincial governments to approve the establishment of micro-lending companies on a test basis. The establishment of a micro-lending company is subject to the approval of the competent government authority at the provincial level. The major sources of funds for a micro-lending company are limited to capital paid by shareholders, donated capital and capital borrowed from up to two financial institutions. Furthermore, the balance of the capital borrowed by a micro-lending company from financial institutions must not exceed 50% of the net capital of such micro-lending company. The interest rate and terms of the borrowed capital is required to be determined by the company with the banking financial institutions upon consultation, and the interest rate must be determined by using the Shanghai Inter-bank Offered Rate as the base rate. With respect to the grant of credit, micro-lending companies are required to adhere to the principle of "small sum and decentralization." The outstanding balance of the loans granted by a micro-lending company to one borrower cannot exceed 5% of the net capital of such company. The interest ceiling used by a micro-lending company may be determined by such companies but in no circumstance shall they exceed the restrictions prescribed by the judicatory authority. The interest floor is 0.9 times the base interest rate published by the PBOC. Micro-lending companies have the flexibility to determine the specific interest rate within the range depending on certain market conditions. In addition, according to the aforementioned guidance, micro-lending companies are required to establish and improve their corporate governance structures, the loan management systems, the financial accounting systems, the asset classification systems, the provision systems for accurate asset classification and their information disclosure systems, and such companies are required to make adequate provisions for impairment losses. Micro-lending companies are also required to accept public scrutiny supervision and are prohibited from carrying out illegal fund-raising in any form.

Based on this guidance, many provincial governments, including that of Fujian Province, promulgated local implementing rules on the administration of micro-lending companies. In March 2012, Fujian Provincial People's Government issued the Interim Administrative Measures on Micro-Lending Companies of Fujian (《福建省小額貸款公司暫行管理辦法》), imposing the management duties upon the relevant regulatory authorities and specifies more detailed requirements on the micro-lending companies. We operate online micro-lending business through one of the subsidiaries of our VIEs, Fuzhou Microcredit, which is approved by the local government authority to conduct micro-lending business in China.

In November 2017, the Online Finance Working Group issued the Notice on the Immediate Suspension of Approvals for the Establishment of Online Micro-Lending Companies (《關於立即暫停批設網絡小額貸款公司的通知》), requiring all relevant regulatory authorities of micro-lending companies to suspend the approval of the establishment of any online micro-lending companies and the approval of any micro-lending business conducted across provinces. Circular 141 further confirms to suspend the approval of the establishment of online micro-lending companies and the approval of any micro-lending business across provinces and enhances the regulation of online micro-lending companies by

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stipulating that (i) the relevant regulatory authorities must suspend the approval for the establishment of any new online micro-lending companies and the conduct of offline business of any micro-lending companies across provinces (districts or cities); (ii) online micro-lending companies must not extend loans to any borrowers without income, such as students; (iii) online micro-lending companies must suspend the funding of online micro-lending with no specific consumption scenarios or specified uses of loan proceeds, and gradually reduce the volume of the existing business relating to such loans and take rectification measures in a period to be specified by authorities.

On December 8, 2017, the P2P Credit Risks Rectification Working Group promulgated the Implementation Plan of Specific Rectification for Risks in Micro-Lending Companies Conducting Online Micro-Lending Business (《小額貸款公司網絡小額貸款業務風險專項整治實施方案》), or Circular 56. Pursuant to Circular 56, “online micro-lending” is defined as micro-lending provided through the internet by online micro-lending companies. Circular 56 emphasizes several material aspects subject to inspection and rectification, which include but not limited to (i) online micro-lending companies must be approved by the competent authorities in accordance with the applicable regulations promulgated by the State Council, and approved online micro-lending companies that operate in violation of any regulatory requirements must be re-examined; (ii) whether the qualification and funding source of the shareholders of online micro-lending companies are in compliance with the applicable laws and regulations; (iii) whether the “integrated actual interest” (namely, the aggregated costs of borrowing charged to borrowers in the form of interest and various fees) are annualized and subject to the limit on interest rates of private lending set forth in the Private Lending Judicial Interpretations and, whether any interest, handling fee, management fee or deposit are deducted from the principal of loans provided to the borrowers in advance; (iv) whether campus loans, or online micro-lending with no specific scenario or designated use of loan proceeds are granted; (v) with respect to the loan business conducted in collaboration with third-party institutions, whether micro-lending companies cooperate with internet platform without website filing or telecommunications business license to provide online micro lending, whether the online micro-lending companies outsource their core business (including the credit assessment and risk management), or accept any credit enhancement service provided by any third-party institutions with no guarantee qualification; or whether any applicable third-party institution collects any interest or fee from the borrowers; and (vi) whether there are any entities conducting online micro-lending business without relevant approval or license for lending business.

On September 7, 2020, the CBIRC issued the Notice on Strengthening the Supervision and Management of Micro-Lending Companies (《關於加強小額貸款公司監督管理的通知》), or Circular 86. Circular 86 aims to regulate the operation of micro-lending companies, prevent and resolve relevant risks and promote the healthy growth of the micro-lending industry. Circular 86 provides the following requirements with respect to micro-lending companies, including, without limitation: (i) the financing balance of the micro-lending company funding by bank loans, shareholder loans and other nonstandard financing instruments shall not exceed such company’s net assets; (ii) the financing balance of the micro-lending company funding by issuance of bonds, asset securitization products and other instruments of standardized debt

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assets shall not exceed four times of its net assets; (iii) the balance of loans offered to one borrower shall not exceed 10% of the net assets of the micro-lending company, and the balance of loans offered to one borrower and such borrower's related parties shall not exceed 15% of the net assets of the micro-lending company; (iv) micro-lending companies are prohibited from upfront deduction of interest, commission fees, management fees or deposits from loans by micro-lending companies before they are released to the borrowers, and if micro-lending companies have deducted any upfront fees in violation of relevant rules and regulations, the borrower will only need to repay the actual loan amount after the exclusion of the interests and fees deducted, and the loan's interest rate shall be calculated accordingly; (v) micro-lending companies shall conduct business in the administrative area at the county level where the company is domiciled in principle, except as otherwise provided for the operation of online micro-lending business; and (vi) the micro-lending companies and third-party loan collection agencies entrusted shall not collect loans by violence, threats of violence, or other ways that intentionally cause harm, infringe personal freedom, illegally occupy property, or interfere with day-to-day life through insulting, slandering, harassing, or disseminating private personal information, or other illegal methods. The local financial regulatory authorities may further lower the ratio caps in (i) and (ii) in accordance with regulatory requirements.

On November 2, 2020, the CBIRC and the PBOC published the Online Micro-Lending Draft adding new requirements on Online Micro-Lending Business. In particular, the Online Micro-Lending Draft, among other things, strengthens the legal approval, license and access conditions of online micro-lending business. Pursuant to the Online Micro-Lending Draft, to the extent a micro-lending company engages in online micro-lending business, the said business shall mainly be carried out within the provincial-level administrative region to which its place of registration belongs, and shall be not operated beyond such region without the approval of the banking regulator under the State Council. The Online Micro-Lending Draft provides the following requirements with respect to micro-lending companies that engage in online micro-lending business, including, without limitation; the registered capital of a micro-lending company which engages in online micro-lending business shall not be less than RMB1 billion and shall be paid in lump-sum in the form of cash; the registered capital of a micro-lending company which engages in online micro-lending business across provincial-level administrative regions shall not be less than RMB5 billion and shall be paid in lump-sum in the form of cash; and the capital contribution of a micro-lending company's controlling shareholder shall not be higher than 35% of its net assets in the previous fiscal year. The Online Micro-Lending Draft also provides that the controlling shareholder of a micro-lending company which engages in online micro-lending business shall have a good financial position and be profitable consecutively in the last two fiscal years while having cumulative tax liabilities of not less than RMB12 million (as per the standard of consolidated accounting statement). In addition, according to the Online Micro-Lending Draft, an investor, its related parties and persons acting in concert shall not be the major shareholders of more than two micro-lending companies that engage in online micro-lending business across provincial level administrative regions, or hold controlling interests in more than one micro-lending company that engage in online micro-lending business across provincial-level administrative regions. Fuzhou Microcredit complies with such requirement.

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Fuzhou Microcredit has obtained the approval from a competent supervising authority to operate online micro-lending business. Based on our current assessment and as advised by our PRC Legal Adviser, we are of the view that Fuzhou Microcredit and its controlling shareholder fulfill the eligibility requirements on the business operation and financial condition under the Online Micro-Lending Draft in all material aspects, including the requirement that the controlling shareholder of the micro-lending company should be in a good financial position and be profitable consecutively in the last two fiscal years while having cumulative tax payments of not less than RMB12 million, except the requirement that the capital contribution of a micro-lending company's controlling shareholder shall not be higher than 35% of its net assets in the previous fiscal year. Currently, Fuzhou Microcredit can conduct cross-province business with its valid license. Except the requirement as mentioned above, our PRC Legal Adviser is not aware of any material legal impediments which specifically stated in the Online Micro-Lending Draft to meet the requirements to acquire an online micro-lending license under the Online Micro-Lending Draft for Fuzhou Microcredit. As of the Latest Practicable Date, the Online Micro-Lending Draft is yet to be formally promulgated and adopted and it is uncertain when the final regulations will be issued and take effect and how they will be enacted, interpreted and implemented, and there can be no assurance that the PRC regulatory authorities will ultimately take a view that is consistent with our PRC Legal Adviser. If the Online Micro-Lending Draft takes effect in its current form, Shanghai Qiyu, the controlling shareholder of Fuzhou Microcredit, can increase its net assets by capital increment and profit enhancement to meet this requirement; and Fuzhou Microcredit may need to obtain the legal approval of the banking regulator under the State Council in order to engage in online micro-lending business across provincial-level administrative regions. As of the date of this document, Fuzhou Microcredit has increased its registered capital to RMB5 billion, which has been fully paid, to meet the requirements as stated in the Online Micro-Lending Draft and would proactively apply for the license to engage in online micro-lending business across provincial-level administrative regions when the relevant rules are officially formulated. If we fail to obtain the license to engage in online micro-lending business across provincial-level administrative regions, we may not be able to obtain sufficient funding to fulfill our future growth needs. See "Risk Factors – We are subject to uncertainties surrounding regulations and administrative measures of micro-lending business and financing guarantee business. If any of our business practices are deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected." As the regulatory regime and practice with respect to online micro-lending companies are evolving, there is uncertainty as to how the requirements in the above rules will be interpreted and implemented and whether there will be new rules issued which would establish further requirements and restrictions on online micro-lending companies. We will closely monitor the regulatory development and adjust our business operations from time to time to comply with relevant laws and regulations applicable to us. See also "Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of micro-lending business and financing guarantee business. If any of our business practices are deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected."

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REGULATIONS ON FINANCING GUARANTEE

In March 2010, seven government authorities, including the CBRC, the MOFCOM and the MOF, promulgated the Interim Administrative Measures for Financing Guarantee Companies (《融資性擔保公司管理暫行辦法》) which require an entity or individual to obtain a prior approval from the relevant government authority before engaging in the financing guarantee business. Financing guarantee is defined as an activity whereby the guarantor and the creditor, such as a financial institution in the banking sector, agree that the guarantor shall bear the guarantee obligations in the event that the secured party fails to perform its financing debt owed to the creditor.

On August 2, 2017, the PRC State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies (《融資擔保公司監督管理條例》), which became effective on October 1, 2017. The Regulations on the Supervision and Administration of Financing Guarantee Companies define "financing guarantee" as a guarantee provided for the debt financing, including but not limited to the extension of loans or issuance of bonds, and set out that the establishment of a financing guarantee company or engagement in the financing guarantee business without approval may result in several penalties, including but not limited to an order to cease business operation, confiscation of illegal gains, fines of up to RMB1,000,000 and criminal liabilities. The Regulations on the Supervision and Administration of Financing Guarantee Companies also provide that the outstanding guarantee liabilities of a financing guarantee company shall not exceed ten times of its net assets, and that the ratio of the balance amount of outstanding guarantee liabilities of a financing guarantee company for the same guaranteed party shall not exceed 10%, while the ratio of the balance amount of outstanding guarantee liabilities of a financing guarantee company for the same guaranteed party and its affiliated parties shall not exceed 15%.

On October 9, 2019, nine government authorities including the CBIRC, the NDRC and the MIIT promulgated the Supplementary Financing Guarantee Provisions, which, as advised by our PRC Legal Adviser, for the first time, explicitly require that institutions providing services of customer recommendation and credit assessment to various lending institutions, including us as a Credit-Tech company, shall not provide, directly or in a disguised form, financing guarantee services without the approvals of relevant authorities. For the companies that do not have the relevant financing guarantee licenses but engage in the financing guarantee business, the regulatory authorities shall suspend such operations and cause these companies to properly settle the existing business contracts.

On July 14, 2020, the CBIRC issued the Guidelines for Off-Site Supervision of Financing Guarantee Companies (《融資擔保公司非現場監管規程》), or the Off-Site Supervision Guidelines, which took effect on September 1, 2020. The Off-Site Supervision Guidelines stipulate the guidelines for the competent regulatory authorities to continually analyze and evaluate the risk of financing guarantee companies and the financing guarantee industry, by way of collecting report data and other internal and external data of the financing guarantee companies and by carrying out corresponding measures. Pursuant to the Off-Site Supervision Guidelines, financing guarantee companies shall establish and implement an off-site

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supervision information report system and submit related data and non-data information in accordance with the requirements of the competent regulatory authorities. The Off-Site Supervision Guidelines note that the corporate governance, internal control, risk management capabilities, guarantee business, associated guarantee risks, asset quality, liquidity indicators and investment conditions of financing guarantee companies shall be the key areas subject to off-site supervisions.

On December 31, 2021, the PBOC issued the Regulations on Local Financial Supervision and Administration (Draft for Comments) (《地方金融監督管理條例(徵求意見稿)》), which regulate all types of local financial organizations including financing guarantee companies. Pursuant to the Regulations on Local Financial Supervision and Administration (Draft for Comments), local financial organizations are required to operate business within the area approved by the local financial regulatory authority, and are not allowed to conduct business across provinces in principle. The rules for cross-province business carried out by local financial organizations shall be formulated by the State Council or by the financial regulatory department of the State Council as authorized by the State Council. The financial regulatory department of the State Council will specify a transition period for local financial organizations that have carried out businesses across provincial administrative regions to maintain compliance.

Fuzhou Financing Guarantee, through which we provide guarantee services to our financial institution partners, has obtained the financing guarantee certificate granted by competent government authorities to conduct financing guarantee business in June 2018. Shanghai Financing Guarantee, through which we provide guarantee services to our financial institution partners, obtained the financing guarantee certificate granted by competent government authorities to conduct financing guarantee business in January 2019.

If the Regulations on Local Financial Supervision and Administration (Draft for Comments) were to be adopted in its current form, Fuzhou Financing Guarantee may need to obtain the legal approval of the financial regulatory department of the State Council in order to engage in Financing Guarantee business across provincial-level administrative regions. However, given the Regulations on Local Financial Supervision and Administration (Draft for Comments) have not come into effect as of the date of this document, there are uncertainties as to their interpretation, application and enforcement. We will closely monitor the legislative process, seek guidance from relevant regulatory authorities and take applicable measures in a timely manner to ensure our compliance with relevant laws and regulations applicable to us. See also "Risk Factors – Risks Relating to Our Business and Industry – We are subject to uncertainties surrounding regulations and administrative measures of micro-lending business and financing guarantee business. If any of our business practices are deemed to be non-compliant with such laws and regulations, our business, financial condition and results of operations would be adversely affected."

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REGULATIONS ON CREDIT REPORTING BUSINESS

The PRC government has adopted several regulations governing personal and enterprise credit reporting businesses. These regulations include the Regulation for the Administration of Credit Reporting Industry (《徵信業管理條例》), enacted by the State Council and effective in March 2013, and the Management Rules on Credit Agencies, issued by the PBOC, in the same year.

The Regulation for the Administration of Credit Reporting Industry defines “credit reporting business” and “credit reporting agency” for the first time. According to the Regulation for the Administration of Credit Reporting Industry, “credit reporting business” means the activities of collecting, organizing, storing and processing “credit-related information” of individuals and enterprises, as well as providing such information to others, and a “credit reporting agency” refers to a duly established agency whose primary business is credit reporting. Besides, the Regulation for the Administration of Credit Reporting Industry and the Management Rules on Credit Agencies stipulate that the establishment of a credit reporting agency to engage in individual credit reporting business shall be subject to the approval of the PBOC, and the requirements for such establishment. Such requirements include: (i) the credit reporting agency’s major shareholders shall have a good reputation and do not have any record of major violation of law or non-compliance in the past three years; (ii) the credit reporting agency’s registered capital shall not be less than RMB50 million; (iii) the credit reporting agency shall have facilities, equipment, systems and measures in place for the protection of information security which comply with the provisions of the PBOC; (iv) the candidates for the credit reporting agency’s director, supervisor and senior management positions shall be familiar with laws and regulations relating to credit reporting business, shall possess the work experience and management capabilities in the credit reporting business required for performance of their duties, shall not have any record of major violation or non-compliance during the past three years, and shall have obtained the appointment qualifications approved by the PBOC; (v) the credit reporting agency shall have a proper organizational structure; (vi) the credit reporting agency shall have proper internal control systems for, among others, business operation, information security management and compliance management; (vii) the credit reporting agency’s individual credit information system shall satisfy the standard of National Information System Security Level Protection Level 2 or above; and (viii) the credit reporting agency shall satisfy any other prudential requirements of the PBOC. Establishment of a credit reporting agency to engage in enterprise credit reporting business shall complete filing with the responsible branch of the PBOC. To complete the filing, a company must submit to the PBOC (i) its business license; (ii) an explanation on equity structure and organization structure; (iii) a description of its scope of business, business rules and basic information on business system; and (iv) its information security and risk prevention measures. Entities engaged in individual/enterprise credit reporting business without such approval/completing filing formality may be subject to fine or criminal liabilities.

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Given that the PBOC is a subordinate authority under the State Council, the Management Rules on Credit Agencies (《徵信機構管理辦法》) enacted by the PBOC is based on the Regulation for the Administration of Credit Reporting Industry, and further details the rules with respect to the administration for credit reporting agencies, including rules to establish, change and deregister a credit reporting agency and the rules for the daily operation of a credit reporting agency.

On September 27, 2021, the PBOC issued the Administrative Measures for Credit Reporting Business (《徵信業務管理辦法》), or the Credit Reporting Measures, effective on January 1, 2022. The Credit Reporting Measures define "credit information" to include "basic information, borrowing and lending information and other relevant information collected pursuant to the law to provide services for financial and other activities for identifying and judging the credit standing of businesses and individuals, as well as analysis and evaluation formed based on the aforesaid information." They apply to entities that carry out credit reporting business and "activities relating to credit reporting business" in China. Separately, entities providing "services with credit reporting function" in the name of "credit information service, credit service, credit evaluation, credit rating, credit repair and other services" are also subject to the Credit Reporting Measures. The Credit Reporting Measures require that whoever engages in personal credit reporting business shall obtain permit from the PBOC's personal credit reporting agency and whoever engages in enterprise credit reporting business shall complete filing formalities pursuant to the law; and whoever engages in credit rating business shall complete filings as a credit rating agency pursuant to the law. The Credit Reporting Measures provide rules on credit reporting business and credit reporting agencies, including that (i) the credit reporting agencies shall collect credit information following the "minimum and necessary" principle and must not collect, compile, store and process credit information by unlawful means, and must not alter original data, (ii) information user shall not abuse credit information, and the credit reporting agencies shall comply with relevant business rules when they provide credit information for credit inquiry, credit evaluation, credit rating and anti-fraud services, (iii) credit reporting agencies shall take measures to ensure the credit information security, and establish an emergency and report system for incidents, and (iv) credit reporting agencies shall comply with related laws and regulations when providing credit information to overseas. Credit Reporting Measures provide an 18-month grace period from its effectiveness date for organizations that engage in credit reporting business to obtain the credit reporting business license and comply with its other provisions.

In addition, on July 7, 2021, the Credit Information System Bureau of PBOC further issued a notice, or the Notice Relating to Disconnecting Direct Connection, to 13 internet platforms including us, requiring the internet platforms to achieve a complete "disconnected direct connection" ("斷直連") in terms of personal information with financial institutions, meaning that the direct flow of personal information from internet platforms that collect such information to financial institutions is prohibited.

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In our service process and operation flow, we collect certain basic information and other necessary information of users for preliminary fraud detection and credit assessment, and then recommend the prospective borrowers' profiles to and share the preliminary results of our credit assessment with our financial institution partners to facilitate their final risk management and credit decision making. Pursuant to the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection, the abovementioned operations may be deemed as operations of credit reporting business, and therefore we may be required to involve a licensed credit reporting institution to ensure compliance. To maintain compliance with the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection, we have taken various adjustment measures, and will complete such adjustments within the 18-month grace period, which began on the effectiveness date of the Credit Reporting Measures. We have entered into a collaboration agreement with a licensed credit reporting institution for the implementation of plans to ensure the flow of personal information complies with the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection. In addition, we have been actively communicating with regulatory authorities related to the adjustment actions and will continue to do so during the grace period. We estimate that the relevant annual costs resulting from such adjustments will account for approximately 1.4% of our facilitation, origination and servicing costs for the year ended December 31, 2021. Therefore, we believe the overall cost for the adjustments is within an acceptable range and therefore will not materially adversely affect our cooperation with financial institutions or our financial performance. In addition, for data or personal information to be shared inevitably by us to financial institution partners before the completion of such adjustments, we will strictly comply with our internal data and personal information protection policies to ensure security of such data and personal information and prevent improper use or disclosure of such data and personal information. These policies were promulgated according to the Personal Information Protection Law, Data Security Law, Cybersecurity Law and other existing applicable laws and regulations relating to privacy protection in China, the legislative purposes of which are in general different from that of the Notice Relating to Disconnecting Direct Connection. For details of the policies, see "Business – Risk Management and Internal Control – Data and technology system risk management." As advised by our PRC Legal Adviser, such policies comply with the Personal Information Protection Law, Data Security Law, Cybersecurity Law and other existing applicable laws and regulations relating to privacy protection in the PRC in all material aspects, and the Notice Relating to Disconnecting Direct Connection, which mainly regulates the credit reporting business rather than the protection of privacy or data security, will not render the aforementioned policies of our Group non-compliant. However, given the Credit Reporting Measures and the Notice Relating to Disconnecting Direct Connection were recently promulgated, there are uncertainties as to the interpretation, application and enforcement of such measures. We will closely monitor the regulatory requirements, seek guidance from relevant regulatory authorities and take applicable measures in a timely manner to ensure our compliance with relevant laws and regulations applicable to us.

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Regulations on issuances of asset-backed securities

According to the Administrative Measures on Asset Securitization of Securities Companies and Subsidiaries of Fund Management Companies (證券公司及基金管理公司子公司資產證券化業務管理規定) and their supportive documents, Guidelines for Securities Companies and Subsidiaries of Fund Management Companies on Asset Securitization (證券公司及基金管理公司子公司資產證券化業務信息披露指引) and Guidelines for Securities Companies and Subsidiaries of Fund Management Companies on Due Diligence for Asset Securitization (證券公司及基金管理公司子公司資產證券化業務盡職調查工作指引) all of which were adopted by the CSRC on November 19, 2014, asset securitization shall mean business activities of issuance of asset-backed securities paid and supported by cash flow generated by the underlying assets, and credit enhancement through structuring etc. Underlying assets broadly refer to property rights such as an enterprise's accounts receivable, creditor's rights under a lease, credit assets and beneficial rights to a trust, immovable property or usufruct such as infrastructure and commercial properties, and other properties or property rights recognized by the CSRC. The assets of the ABS plan shall be placed under custody of a commercial bank with the relevant business qualifications, or an asset custodian organization recognized by the CSRC. The issuer (originator) shall not encroach upon or cause damage to the underlying assets, and shall perform the following duties: (i) transfer underlying assets pursuant to the provisions of laws, administrative regulations, the company's articles of association and the relevant agreement; (ii) cooperate with and support performance of duties by the manager, custodian and any other organization providing services for asset securitization; and (iii) any other duties agreed in the legal documents of the ABS plan. As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, our issuance of ABSs had complied with the Administrative Measures on Asset Securitization of Securities Companies and Subsidiaries of Fund Management Companies and other applicable laws and regulations of CSRC in all material aspects and the securities companies, trust companies and the relevant parties that we cooperate with have requisite license as manager or custodian of the ABS plan.

REGULATIONS ON ANTI-MONEY LAUNDERING

The PRC Anti-Money Laundering Law (《中華人民共和國反洗錢法》), which was issued by the SCNPC, in October, 2006 and became effective in January 2007, sets forth the principal anti-money laundering requirements applicable to financial institutions as well as non-financial institutions with anti-money laundering obligations, including the adoption of precautionary and supervisory measures, the establishment of various systems for client identification, the retention of clients' identification information and transactions records, and the reporting obligation on material transactions and suspicious transactions. The PBOC and other government authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions. However, PRC State Council has not promulgated the list of the non-financial institutions with anti-money laundering obligations.

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The Fintech Guidelines, as defined previously, clarify, among other things, internet financial service provider requirements to comply with certain anti-money laundering provisions, including the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The PBOC will formulate implementing rules to further specify the anti-money laundering obligations of internet financial service providers. On October 10, 2018, the PBOC, CBIRC and CSRC jointly promulgated the Administrative Measures for Anti-money Laundering and Counter-terrorism Financing by Internet Finance Service Agencies (for Trial Implementation) (《互聯網金融從業機構反洗錢和反恐怖融資管理辦法(試行)》), effective as of January 1, 2019, which specify the anti-money laundering obligations of internet finance service agencies and regulate that the internet finance service agencies (i) shall adopt continuous customer identification measures; (ii) shall implement the system for reporting large-value or suspicious transactions; (iii) shall conduct real-time monitoring of the lists of terrorist organizations and terrorists; and (iv) shall properly keep the information, data and materials such as customer identification and transaction reports etc.

Pursuant with the aforementioned regulations, we have implemented various policies and procedures, such as internal controls and “know-your-customer” procedures, for anti-money laundering purposes. However, our policies and procedures may not be completely effective in preventing other parties from using us for money laundering without our knowledge. See “Risk Factors – Risks Related to Our Business and Industry – If our financial institution partners fail to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations, our business and results of operations could be materially and adversely affected.”

REGULATIONS ON ANTI-MONOPOLY

The Anti-Monopoly Law (《反壟斷法》) promulgated by the SCNPC on August 30, 2007, which became effective on August 1, 2008 and was amended on June 24, 2022, and the Interim Provisions on the Review of Concentrations of Undertakings promulgated by the SAMR on October 23, 2020, which became effective on December 1, 2020 and was amended on March 24, 2022, require that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the SAMR before they can be completed. Where the participation in concentration of undertakings by way of foreign-funded merger and acquisition of domestic enterprises or any other method which involves national security, the examination of concentration of undertakings shall be carried out pursuant to the provisions of this law and examination of national security shall be carried out pursuant to the relevant provisions of the State. The revised Anti-monopoly Law provides, among others, that business operators shall not use data, algorithms, technology, capital advantages and platform rules to exclude or limit competition, and also requires relevant government authorities to strengthen the examination of concentration of undertakings in areas related to national welfare and people’s well-being, and enhances penalties for violation of the regulations regarding concentration of undertakings.

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On February 7, 2021, the Anti-monopoly Commission of the State Council issued the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》), which specifies that any concentration of undertakings involving variable interest entities (VIE structure) shall fall within the scope of anti-monopoly review. If a concentration of undertakings meets the criteria for declaration as stipulated by the State Council, an operator shall report such concentration of undertakings to the anti-monopoly law enforcement agency under the State Council in advance.

We do not conduct any of the monopolistic practices under the Anti-Monopoly Law and the Anti-Monopoly Guidelines for the Internet Platform Economy Sector. In particular, we are not involved in any concentration of undertakings which constitute monopolistic practices and are required to be reported to the relevant authorities pursuant to the Anti-Monopoly Law or other applicable antitrust laws. We do not believe our business is in violation of the Anti-monopoly Law of the PRC, and as of the Latest Practicable Date, we had not been subject to any administrative penalties or regulatory actions in connection with anti-monopoly.

REGULATIONS ON INFORMATION SECURITY AND PRIVACY PROTECTION

In recent years, PRC government authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT in December 2011 and effective as of March 2012, an internet information service provider may not collect any user personal information or provide any such information to third parties without the specific consent of the user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information, and may only collect such information necessary for the provision of its services.

In addition, pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》) issued by the SCNPC in December 2012, which seeks to enhance the legal protection of information security and privacy on the internet, and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT in July 2013, which regulates the collection and use of users' personal information in the provision of telecommunications services and internet information services in China, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes.

The State Internet Information Office issued the Administrative Provisions on Mobile Internet App Information Services (《移動互聯網應用程序信息服務管理規定》) (the "APP Provisions") in June 2016, effective on August 2016 and amended on June 14, 2022, to implement the regulations of the mobile app information services. The APP Provisions regulate the APP information service providers and the Internet application store service providers, while the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively. The APP

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information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations provided by the APP Provisions.

In addition, the Fintech Guidelines require internet financial service providers, including Credit-Tech service providers, among other things, to improve technology security standards, and safeguard customer and transaction information. They also prohibit Credit-Tech service providers from illegally selling or disclosing customers' personal information. The PBOC and other relevant regulatory authorities will jointly adopt the implementing rules and technology security standards.

Pursuant to the Ninth Amendment to the Criminal Law issued by the SCNPC, effective as of November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon administrative orders is subject to criminal penalty as a result of (i) any dissemination of illegal information on a large scale; (ii) any severe effect due to the leakage of customers' information; (iii) any serious loss of criminal evidence; or (iv) other severe situation. Moreover, any individual or entity that (i) sells or provides personal information to others in a way that violates applicable law, or (ii) steals or illegally obtains any personal information, is subject to criminal liabilities in severe situations.

The Network Security Law (《网络安全法》) is formulated to maintain network security, safeguard cyberspace sovereignty, national security and public interest, protect the lawful rights and interests of citizens, legal persons and other organizations, and requires a network operator, which includes, among others, Internet information services providers, to take technical measures and other necessary measures in accordance with the provisions of applicable laws and regulations as well as the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of the networks, effectively respond to the network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Network Security Law emphasizes that any individual and organization that uses networks is required to comply with the PRC Constitution and laws, abide by public order and cannot endanger network security or make use of networks to engage in unlawful activities such as endangering national security, economic order and social order, and infringing the reputation, privacy, intellectual property rights and other lawful rights and interests of other people. The Network Security Law reaffirms the basic principles and requirements as specified in other existing laws and regulations on personal information protections, such as the requirements on the collection, use, processing, storage and disclosure of personal information, and internet service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent personal information from being divulged, damaged or lost. Any violation of the provisions and requirements under the Network Security Law may subject the Internet service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, closedown of websites or even criminal liabilities.

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On December 29, 2017, the Information Security Technology Personal Information Security Specification (《信息安全技術個人信息安全規範》) (GB/T 35273-2017), or the Specification, was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardization Administration and is replaced by the 2020 Specification issued by the SAMR and the Standardization Administration jointly, which came into effect on October 1, 2020. Pursuant to the Specification, product and service providers should take technical and other necessary measures to ensure the safety of personal information, clearly demonstrate the purpose, approaches and scope of processing of the personal information to the individual and obtain the requisite authorization. In addition, according to the 2020 Specification, the original personal biometric information should not, in principle, be stored and, in any event, should be stored separately from personal identity information. It further requires that the privacy policy disclose the scope and rules of personal information collection and use by the personal information controller, which should not be regarded as a contract signed by the subject of personal information.

On January 23, 2019, the Office of the Central Cyberspace Affairs Commission, the MPS, the SAMR and the MIIT jointly issued the Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》). According to the Announcement, from January to December 2019, the four aforementioned authorities would conduct a nationwide crackdown on the illegal collection and use of personal information. App operators shall strictly fulfill their obligations pursuant to the Cybersecurity Law when collecting and using personal information, and shall be responsible for the security of personal information obtained and take effective measures to strengthen personal information protection. The App operators shall follow the principles of lawfulness, legitimacy and necessity, refrain from collecting personal information that is not related to the services provided; when collecting personal information, shall display the rules for the collection and use of personal information in an easy-to-understand, simple and clear manner, and personal information subjects shall independently choose consents; app operators shall not force users to provide authorization through the use of default setting, bundling, stopping installation and use, etc., and may not collect personal information in violation of laws and regulations or against the agreements with users. App operators are asked to provide users with the options of refusing to receive targeted pushes when app operators push news, current affairs and advertisements to targeted users.

On March 13, 2019, the SAMR and the Office of the Central Cyberspace Affairs Commission jointly issued the Announcement on Launching the Security Certification of Apps (《關於開展App安全認證工作的公告》), which encourages app operators to voluntarily pass the security certification of apps, and encourages operators of search engines and app stores to clearly identify and give priority to recommending those certified Apps. On November 28, 2019, the CAC and other three authorities jointly issued the Announcement on Identification Method of App Collecting and Using Personal Information in Violation of Laws and Regulations (《App違法違規收集使用個人信息行為認定方法》), which provides further guidance for determining conduct that qualifies as the unlawful collection and usage of personal information via Apps.

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On April 10, 2019, the MPS issued the Guide for Internet Personal Information Security Protection (《互聯網個人信息安全保護指南》), which sets out the management mechanism, security technical measures and business processes for personal information security protection. This Guide is applicable to personal information holders in carrying out their security protection work during personal information life cycle processing. It is applicable to enterprises that provide services through the Internet, as well as to organizations or individuals who use a private or non-networked environment to control and process personal information.

On February 13, 2020, the PBOC issued the Personal Financial Information Protection Technical Specification (《個人金融信息保護技術規範》), which is an industry standard, specifying the security protection requirements for all aspects of personal financial information life cycle processing, including collection, transmission, storage, use, deletion and destruction. This standard is applicable to institutions in the financial industry in the provision of financial products and services, and also provides guidance for security assessment agencies in conducting security inspections and assessments. Based on the potential impact caused by unauthorized viewing or unauthorized change of financial information, this standard classifies personal financial information into three categories of C3, C2, and C1 from high to low sensitivity, and different requirements apply to information classified under different categories.

On March 12, 2021, the CAC, MIIT, MPS and the SAMR promulgated the Provisions on the Scope of Necessary Personal Information Required for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》), which became effective on May 1, 2021. The Provisions on the Scope of Necessary Personal Information Required for Common Types of Mobile Internet Applications clarify the scope of necessary information required for certain common types of mobile apps and stipulate that mobile app operators shall not deny users' access to basic functions and services of the app in the event that the users disagree with collection of unnecessary personal information.

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law of the PRC, which came into effect on September 1, 2021 (《中華人民共和國數據安全法》), or the PRC Data Security Law. The PRC Data Security Law introduces a data classification and hierarchical protection system based on the materiality of data in economic and social development, as well as the degree of harm to national security, public interests, or legitimate rights and interests of persons or entities if such data is tampered with, destroyed, divulged, or illegally acquired or used. It also provides for a security review procedure for the data activities that may affect national security. Violation of the PRC Data Security Law may subject the relevant entities or individuals to warnings, fines, suspension of operations, revocation of permits or business licenses, or even criminal liabilities.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), which became effective on November 1, 2021. The Personal Information Protection Law stipulates certain important concepts with respect to personal information processing, including that: (i) "personal information" refers to all kinds of information relating to identified or identifiable natural persons recorded by

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electronic or other channel and methods, excluding information processed anonymously; (ii) "processing of personal information" includes the collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information; and (iii) "personal information processor" refers to an organization or individual that independently determines the purpose and method of processing personal information. Except as otherwise provided in the Personal Information Protection Law, a personal information processor may only process personal information under the circumstances where the relevant individuals' consents have been obtained or where certain contractual arrangements, employment relationships, public emergencies, performance of statutory duties or obligations or publishing of press release for public interests so require.

On September 17, 2021, the CAC, together with eight other government authorities, jointly issued the Guidelines on Strengthening the Comprehensive Regulation of Algorithms for Internet Information Services (《關於加強互聯網信息服務算法綜合治理的指導意見》). On December 31, 2021, the CAC, the MIIT, the MPS, and the SAMR jointly promulgated the Administrative Provisions on Internet Information Service Algorithm-Based Recommendation (《互聯網信息服務算法推薦管理規定》), which took effect on March 1, 2022. The Administrative Provisions on Internet Information Service Algorithm-Based Recommendation, among others, (i) implement classification and hierarchical management for algorithm-based recommendation service providers based on various criteria, (ii) require algorithm-based recommendation service providers to inform users of their provision of algorithm-based recommendation services in a conspicuous manner, and publicize the basic principles, purpose intentions, and main operating mechanisms of algorithm-based recommendation services in an appropriate manner, and (iii) require such service providers to provide users with options that are not specific to their personal profiles, or convenient options to cancel algorithmic recommendation services.

On April 13, 2020, the Measures on Cybersecurity Review (《網絡安全審查辦法》) were issued, which took effect on June 1, 2020. They provide detailed rules regarding cyber security review, and further provide that any operator found in violation of the Measures shall be penalized in accordance with Article 65 of the Cybersecurity Law. The Measures for Cybersecurity Review (2021 Revision) (《網絡安全審查辦法》(2021版)), which came into effect on February 15, 2022, provide that, to ensure the security of the supply chain of critical information infrastructure and safeguard national security, a cybersecurity review is required when national security has been or may be affected where critical information infrastructure operators purchase network product or service and network platform operators process data. When an operator in possession of personal information of over one million users applies for a listing abroad, it must apply to the CAC for a cybersecurity review. The Measures on Cybersecurity Review further elaborates the factors to be considered when assessing the national security risks of the relevant activities, including, among others, (i) the risks of illegal control, interference or destruction of critical information infrastructure brought about by the use of products and services; (ii) the harm caused by supply interruption of products and services to the business continuity of critical information infrastructure; (iii) security, openness, transparency and diversity of sources of products and services, reliability of supply channels, and risks of supply interruption due to political, diplomatic, trade or other factors;

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(iv) information on compliance with Chinese laws, administrative regulations and departmental rules by product and service providers; (v) risks of theft, disclosure, damage, illegal use or cross-border transfer of core data, important data or large amounts of personal information; (vi) risks of influence, control or malicious use of critical information infrastructure, core data, important data or large amounts of personal information by foreign governments after listing on a foreign stock exchange; and (vii) other factors that may endanger critical information infrastructure security and national data security.

On July 7, 2022, the CAC published Outbound Data Transfer Security Assessment Measures (《數據出境安全評估辦法》) that took effect on September 1, 2022 and outline the potential security assessment process for outbound data transfer. Under the Outbound Data Transfer Security Assessment Measures, data processors that provide important data and personal information outbound that are collected or produced through operations within the territory of the PRC, where a security assessment shall be conducted according to the law, shall apply to the provisions of these Measures. Under the Outbound Data Transfer Security Assessment Measures, data processors providing outbound data shall apply for outbound data transfer security assessment with the CAC in any of the following circumstances: (i) where a data processor provides important data abroad; (ii) where a critical information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information abroad; (iii) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year; and (iv) other circumstances prescribed by the CAC for which declaration for security assessment for outbound data transfers is required. The Outbound Data Transfer Security Assessment Measures also provide procedures for security assessment and submissions, important factors to be considered in conducting assessment, and legal liabilities of a data processor for failure to apply for assessment.

On November 14, 2021, the CAC released the Draft Regulations on Network Data Security (《網絡數據安全管理條例(徵求意見稿)》). These draft regulations define “data processors” as individuals or organizations that autonomously determine the purpose and the manner of data processing. The draft regulations set forth general guidelines, protection of personal information, security of important data, security management of cross-border data transfer, obligations of internet platform operators, supervision and management, and legal liabilities. Pursuant to such draft regulations, a cybersecurity review will be imposed on a data processor that (i) processes personal information of one million or more users and applies for listing in a foreign country; (ii) merger, reorganization or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (iii) applies for listing in Hong Kong and may impact national security, or (iv) engages in activities or transactions that may impact national security. Moreover, under such draft regulations, data processors dealing with important data or listing offshore should carry out an annual data security assessment and data security services before January 31 of each year. Under such draft regulations, data security assessment reports for the previous year shall be submitted to the municipal-level cyberspace administration department by January 31 of the following year.

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To ensure compliance with the above laws and regulations, in providing our Credit-Tech service, we collect certain personal information from our consumers and SMEs, and also are required to share the information with our financial institution partners for the purpose of facilitating credit to our borrowers. We have obtained consent from borrowers for us to collect, use and share their personal information, and have also established information security systems to protect user information and to abide by other network security requirements under such laws and regulations. However, there is uncertainty as to the interpretation application and enforcement of such laws which may be interpreted and applied in a manner inconsistent with our current policies and practices or require changes to the features of our system. Any non-compliance or perceived non-compliance with these laws, regulations or policies may lead to warnings, fines, investigations, lawsuits, confiscation of illegal gains, revocation of licenses, cancelation of filings, closedown of websites or apps or even criminal liabilities against us by government agencies or other individuals.

While we have taken measures to protect the personal information to which we have access, our security measures could be breached, resulting in leaks of such confidential personal information. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity.

REGULATIONS ON FOREIGN EXCHANGE

Pursuant to the Foreign Exchange Administration Regulations (《外匯管理條例》), as issued in January 1996 and amended in January 1997 and August 2008, Renminbi is freely convertible for current account items, including the trade and service-related foreign exchange transactions, the distribution of dividends, interest payments but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless prior approval from the SAFE is obtained and prior registration with the SAFE is made.

In June 2015, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or the SAFE Circular 19. The SAFE further promulgated the Notice of the State Administration of Foreign Exchange on Reforming (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) and the SAFE Circular 16 on June 9, 2016, which, among other things, amends certain provisions of SAFE Circular 19. Pursuant to SAFE Circular 19 and SAFE Circular 16, the flow and use of Renminbi capital converted from foreign currency denominated registered capital of a foreign-invested company shall not be used for business beyond its business scope, or to provide loans to persons other than affiliates unless otherwise permitted under its business scope. Violations of SAFE Circular 19 or SAFE Circular 16 could result in administrative penalties.

REGULATORY OVERVIEW

In February 2015, the SAFE promulgated the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or the SAFE Circular 13, which took effect in June 2015. SAFE Circular 13 delegates the power to enforce the foreign exchange registration in connection with inbound and outbound direct investments under relevant SAFE rules from local branches of the SAFE to banks, thereby further simplifying the foreign exchange registration procedures for inbound and outbound direct investments.

Regulations on dividend distribution

The principal regulations governing distribution of dividends of foreign-invested enterprises include PRC Company Law (《中華人民共和國公司法》), PRC Wholly Foreign-owned Enterprise Law, and Implementation Rules of the PRC Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法實施細則》), of which the Wholly Foreign-invested Enterprise Law (《中華人民共和國外資企業法》) together with its implementation regulations is replaced by 2019 PRC Foreign Investment Law (《中華人民共和國外商投資法》) from January 1, 2020. Under these laws and regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from Shanghai Qiyue Information & Technology Co., Ltd., which is a wholly foreign-owned enterprise incorporated in China, to fund any cash and financing requirements we may have. Limitation on the ability of our VIEs to make remittance to our wholly-foreign owned enterprise and on the ability of our wholly-foreign owned enterprise to pay dividends to us could limit our ability to access cash generated by the operations of those entities. 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."

Regulations on foreign exchange registration of overseas investment by PRC residents

In July 2014, the SAFE promulgated the SAFE Circular 37 in the replacement of Notice on Issues relating to Foreign Exchange Administration for Financing and Roundtrip Investments by Domestic Residents through Overseas Special-purpose Companies in October 2005 (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), requiring PRC residents or entities to register with the SAFE or its local branch in connection

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with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

The SAFE further enacted SAFE Circular 13, which allows PRC residents or entities to register with qualified banks in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities. In addition, the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

These aforementioned regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions and share transfer that we make in the future if our shares are issued to PRC residents. See "Risk Factors – Risks Related to Doing Business in China – PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law."

Regulations on stock incentive plans

In February 2012, the SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), replacing the previous rules issued by the SAFE in March 2007 and in January 2008. Under such stock option rules and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to the SAFE or its

REGULATORY OVERVIEW

local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

In addition, SAFE Circular 37 provides that PRC residents who participate in a share incentive plan of an overseas unlisted special purpose company may register with the SAFE or its local branches before exercising rights. If the PRC optionees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rules, we and our PRC optionees may be subject to fines and other legal sanctions. In May 2018 and November 2019, we adopted the 2018 Plan and the 2019 Plan, respectively, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. We will also advise the recipients of awards under our 2018 Plan to handle relevant foreign exchange matters in accordance with the 2012 SAFE Notices. However, we cannot guarantee that all employee awarded equity-based incentives can successfully register with SAFE in full compliance with the 2012 SAFE Notices. See “Risk Factors – Risks Related to Doing Business in China – Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions” and “Risk Factors – Risks Related to Doing Business in China – PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.”

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright and software products

The SCNPC adopted PRC Copyright Law (《中華人民共和國著作權法》) in 1990 and most recently amended in 2020, with its implementing rules adopted in 1991 and most recently amended in 2013 by PRC State Council, and the Regulations for the Protection of Computer Software (《計算機軟件保護條例》) promulgated by the PRC State Council in 2001 and most recently amended in 2013. These rules and regulations extend copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. According to the aforementioned laws and regulation, the term of protection for copyrighted software is fifty years.

Trademarks

PRC Trademark Law (《中華人民共和國商標法》) was promulgated by the SCNPC in August 1982 and most recently amended in April 2019, and the Implementation Regulations on the PRC Trademark Law (《中華人民共和國商標法實施條例》) was promulgated by PRC State Council in August 2002 and amended in April 2014. These laws and regulations provide

REGULATORY OVERVIEW

the basic legal framework for the regulations of trademarks in the PRC. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certificate trademarks. The Intellectual Property Office under the SAMR is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of ten years. Applicants may apply for an extension 12 months prior to the expiration of the 10-year term.

Domain names

Internet domain name registration and related matters are primarily regulated by the Measures on Administration of Internet Domain Names (《互聯網域名管理辦法》), which replaced the Measures on Administration of Domain Names for the Chinese Internet in November 2004, issued by MIIT and effective as of November 1, 2017, and the Implementing Rules on Registration of Domain Names issued by China Internet Network Information Center in May 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

We have adopted necessary mechanisms to register, maintain and enforce intellectual property rights in China. However, we cannot assure you that we can prevent our intellectual property from all the unauthorized use by any third party, neither can we promise that none of our intellectual property rights would be challenged by any third party. See “Risk Factors – Risks Related to Our Business and Industry – We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position” and “Risk Factors – Risks Related to Our Business and Industry – We may be subject to intellectual property infringement claims, which may be costly to defend and may disrupt our business and operations.”

M&A RULES

In August 2006, six PRC governmental agencies jointly promulgated the M&A Rules as most recently amended in 2009. The M&A Rules establish procedures and requirements that could make certain acquisitions of PRC companies by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise.

According to the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises, the merger and acquisition of domestic non-foreign-invested enterprises by foreign investors shall, if not involving special access administrative measures and affiliated mergers and acquisitions, be subject to the record filing measures.

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Furthermore, the MOFCOM and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) on December 30, 2019, which came into effect on January 1, 2020 and replaced Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to such measures.

For detailed analysis, see “Risk Factors – Risks Related to Doing Business in China – The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.”

OVERSEAS LISTINGS

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). These opinions emphasize the need to strengthen the administration over illegal securities activities and the supervision on offshore listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents faced by China-based offshore-listed companies.

On December 24, 2021, the CSRC issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (《國務院關於境內企業境外發行證券和上市的管理規定 (徵求意見稿)》), or the Draft Provisions, and a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市備案管理辦法 (草案徵求意見稿)》), or the Draft Administration Measures. The Draft Provisions and the Draft Administration Measures, if adopted in their current forms, will regulate both direct and indirect overseas offering and listing of PRC domestic companies' securities by adopting a filing-based regulatory regime. According to such draft rules, companies in China will be required to submit the filing with the CSRC within 3 working days after submitting listing application materials to overseas regulators, and such filing shall be completed before the companies are permitted to be listed and offering securities overseas, and overseas-listed companies with major operation in China will be required to file with the CSRC after the completion of securities offering in overseas capital markets. As of the Latest Practicable Date, the Draft Administration Measures have not been formally adopted.

In addition, pursuant to the Draft Provisions and the Draft Administration Measures, an overseas offering and listing of a PRC company is prohibited under any of the following circumstances, if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed

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relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council. As of the Latest Practicable Date, the Draft Provisions have not been formally adopted.

On April 2, 2022, the CSRC published the revised Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定(徵求意見稿)》) (the "Draft Archives Rules"), which is published for public comments. The Draft Archives Rules require that, in relation to the overseas listing activities of domestic enterprises, such domestic enterprises, as well as securities companies and securities service institutions providing relevant securities services, are required to strictly comply with the relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities. According to the Draft Archives Rules, if during the course of an overseas offering and listing, if a PRC company needs to publicly disclose or provide to securities companies, accounting firms or other securities service providers and overseas regulators, any materials that contain relevant state secrets or that have a sensitive impact, the PRC company should complete the relevant approval/filing and other regulatory procedures. However, there remain uncertainties regarding the further interpretation and implementation of the Draft Archives Rules. As of the Latest Practicable Date, the Draft Archives Rules has not been formally adopted.

LAWS AND REGULATIONS RELATING TO LABOR

Pursuant to PRC Labor Law (《中華人民共和國勞動法》), promulgated by the SCNPC in July 1994 and revised in August 2009 and December 2018, and the Labor Contract Law of PRC (《中華人民共和國勞動合同法》), promulgated by the SCNPC in June 2007 and amended in December 2012, and the Implementing Regulations of the Labor Contract Law (《中華人民共和國勞動合同法實施條例》), employers must execute written employment contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage. Violations of the Labor Law and the Labor Contract Law may result in fines and other administrative sanctions, and serious violations may result in criminal liabilities.

Under PRC laws, rules and regulations, including the PRC Social Insurance Law (《中華人民共和國社會保險法》) promulgated by the SCNPC in October 2010, which became effective in July 2011 and amended in December 2018, the Interim Measures on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》) in January 1999 and amended in March 2019, the Regulations on Work Injury Insurance (《工傷保險條例》) issued by PRC State Council in April 2003, and amended in December 2010, the Regulations on Unemployment Insurance (《失業保險條例》) promulgated by PRC State Council in January 1999 and the Regulations on the Administration of Housing Accumulation Funds (《住房公積

REGULATORY OVERVIEW

金管理條例》), or the Regulations on Housing Fund released by PRC State Council in April 1999 and last amended in March 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds and implement certain employee benefit plans, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance and housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to pay the deficit amount. According to the PRC Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of 0.05% per day, as the case may be. If the employer still fails to rectify the failure to make social insurance contributions within the deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Housing Fund, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

We have caused all of our full-time employees to enter into written employment contracts with us and have provided and currently provide our employees with proper welfare and employee benefits as required by the PRC laws and regulations.

REGULATIONS RELATED TO TAX

Enterprise income tax

Under the EIT Law, effective in January 2008 and amended in February 2017 and December 2018, and its implementing rules, enterprises are classified as resident enterprises and non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in the PRC should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%. An enterprise established outside of the PRC with its "de facto management bodies" located within the PRC is considered a "resident enterprise," which means that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define a de facto management body as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

The EIT Law and the implementation rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises," and gains derived by such investors, which (i) do not have an establishment or place of business in the PRC or (ii) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the Double Tax Avoidance Arrangement and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied

REGULATORY OVERVIEW

the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority.

However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》), issued in February 2009 by the STA if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and the Announcement on Issues concerning “Beneficial Owners” in Tax Treaties issued on February 3, 2018 by the STA, when determining the status of “beneficial owners,” a comprehensive analysis may be conducted through materials such as articles of association, financial statements, records of capital flows, minutes of board of directors, resolutions of board of directors, allocation of manpower and material resources, the relevant expenses, functions and risk assumption, loan contracts, royalty contracts or transfer contracts, patent registration certificates and copyright certificates etc. However, even if an applicant has the status as a “beneficiary owner,” the competent tax authority finds necessity to apply the principal purpose test clause in the tax treaties or the general anti-tax avoidance rules stipulated in domestic tax laws, the general anti-tax avoidance provisions shall apply.

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 and renewed in 2021, therefore it was entitled to a reduced 15% enterprise income tax rate from 2018 to 2023. In 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.

We believe that we should not be treated as a “resident enterprise” for PRC tax purposes even if the standards for “de facto management body” are applicable to us. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” 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%, which could materially reduce our net income. 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.”

REGULATORY OVERVIEW

Value-added tax

According to the Interim Regulations on Value-added Tax (《增值稅暫行條例》), which was promulgated by PRC State Council in December 1993 and most recently amended in 2017, and the Implementing Rules of the Interim Regulations on Value-added Tax (《增值稅暫行條例實施細則》), promulgated by the MOF in December 2008 and most recently amended in October 2011 all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax.

Since January 1, 2012, the MOF and the STA have implemented the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》), or the VAT Pilot Plan, which imposes VAT in lieu of business tax for certain "modern service industries" in certain regions and eventually expanded to nation-wide application. According to the implementation circulars released by the MOF and the STA on the VAT Pilot Plan, the "modern service industries" include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. According to the Notice of the MOF and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) which was issued in March 2016 and effective in May 2016 and most recently amended in March 2019, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of the PRC are required to pay value-added tax instead of business tax. Following the implementation of the VAT Pilot Plan, all of our PRC subsidiaries and affiliates have been subject to VAT, at a rate of 6% instead of business tax.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and upon the completion of the [REDACTED], assuming that the [REDACTED] becomes unconditional and the [REDACTED] are issued pursuant to the [REDACTED], excluding any [REDACTED] and issuance of Shares upon exercise of the [REDACTED].

1. Share capital as at September 30, 2022

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
4,900,000,000	Class A ordinary shares	US\$49,000
50,000,000	Class B ordinary shares	US\$500
50,000,000	Undesignated	US\$500
		US\$500
Total		US\$50,000
		US\$50,000

(ii) Issued, fully paid or credited to be fully paid

Number	Description of Shares	Approximate aggregate nominal value of shares
272,702,117	Class A ordinary shares	US\$2,727
39,820,586	Class B ordinary shares	US\$398
		US\$3,125
Total		US\$3,125
		US\$3,125

Note:

* Excluding 2,910,315 Class A ordinary shares issued to our depositary and reserved for future [REDACTED] upon the exercising or vesting of awards granted under our Share Incentive Plans.

SHARE CAPITAL

2. Share capital immediately following the completion of the [REDACTED]

(i) *Authorized share capital*

Number	Description of shares	Approximate aggregate nominal value of shares
4,900,000,000	Class A ordinary shares	US\$49,000
50,000,000	Class B ordinary shares	US\$500
50,000,000	Undesignated	US\$500
Total		US\$50,000

(ii) *Issued fully paid or credited to be fully paid*

Number	Description of shares	Approximate aggregate nominal value of shares
[REDACTED]	Class A ordinary shares	US\$[REDACTED]
[REDACTED]	Class B ordinary shares	[REDACTED]
Total		US\$[REDACTED]

Note:

- * Excluding 2,910,315 Class A ordinary shares issued to our depositary and reserved for future [REDACTED] upon the exercising or vesting of awards granted under our Share Incentive Plans.

OUR VOTING STRUCTURE BEFORE AND AFTER THE [REDACTED]

Under our current weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 20 votes, respectively, on all matters that require a shareholder’s vote. As of the Latest Practicable Date, all Class B ordinary Shares were held by Aerovane Company Limited. For further details on the ownership of Aerovane Company Limited, see section headed “Major Shareholders.”

Upon the [REDACTED], all the Class B ordinary shares held by Aerovane Company Limited shall be converted into Class A ordinary shares on a one-for-one basis pursuant to the conversion notice [delivered] by Aerovane Company Limited to the Company which will take effect upon [REDACTED]. Subsequently, no issued and outstanding Class B ordinary shares of the Company shall be subsisting upon [REDACTED].

SHARE CAPITAL

At the First GM, we will put forth for voting certain changes to the Articles of our Company which include, amongst others, the unwinding of the weighted voting rights structure of the Company through the removal of all references to the Class B ordinary shares in the Articles. Subsequently, all the issued Shares of our Company will entitle their holders to one vote per Share at a general meeting of our Company. For further details, see section headed "Waivers and Exemptions – Requirements Relating to the Articles of Association of our Company."

RANKING

The Class A ordinary shares are ordinary shares in the share capital of our Company and rank equally with all Class A ordinary shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

SHARE INCENTIVE PLANS

See "Directors and Senior Management – Compensation – Share Incentive Plans" for details about our Share Incentive Plans.

DEFENSE MECHANISM AGAINST HOSTILE TAKEOVERS

We have implemented a defense mechanism to impede hostile takeovers through a rights agreement. On June 9, 2022, our Board declared a dividend of a right purchase to one Share (or any other share resulting from successive changes or reclassifications of the Shares) (a "**Right**") for each of our ordinary shares outstanding at the close of business on June 17, 2022, pursuant to a rights agreement.

Under the rights agreement, all outstanding ordinary shares of our Company at the close of business on June 17, 2022 have attached Rights. As long as the Rights are attached to the ordinary shares, we will issue one Right (subject to adjustment) with each new ordinary share so that all ordinary shares, including any [REDACTED] to be [REDACTED] in this [REDACTED], will have attached Rights. The Right will become exercisable if a person or a group of affiliated or associated persons (i) acquires or obtains the right to acquire (subject to certain exceptions) beneficial ownership of 10% of the outstanding ordinary shares of the Company (such person or group, an "**Acquiring Person**") or (ii) commences a tender offer or exchange offer that would result in such person or group becoming an Acquiring Person. When exercisable, each Right will entitle the registered holder, except the Acquiring Person, to purchase from us a number of Shares (or any other share resulting from successive changes or reclassifications of the Shares), for the price of US\$36.00 (the "**Purchase Price**"), having a then-current market value of twice the Purchase Price, subject to adjustment. Rights issued to, or held by, any person or group who is, was, or becomes an Acquiring Person, whether currently held by or on behalf of such person or group or by any subsequent holder, will become null and void. As a result, the Acquiring Person (and the shareholders who choose not to exercise the Rights) will be greatly diluted if most of other existing shareholders choose to

SHARE CAPITAL

exercise the Rights, and other existing shareholders who exercise the Rights will not be diluted, thereby effectively reducing the risk of a potential hostile takeover. In the event that a person or a group of affiliated or associated persons becomes an Acquiring Person and (i) the Company engages in a merger or other business combination transaction in which the Company is not the surviving corporation, (ii) the Company engages in a merger or other business combination transaction in which the Company is the surviving corporation and the ordinary shares of the Company are changed or exchanged, or (iii) 50% or more of the Company's assets, cash flow or earning power is sold or transferred, each Right (other than Rights held by the Acquiring Person) may thereafter entitle the holder of such Right to receive, upon exercise of the Right at the Purchase Price, ordinary shares (or capital stock, as applicable) of the acquiring company having a value equal to two times the Purchase Price of the Right.

We believe that this mechanism is beneficial to our Company as it encourages anyone seeking to acquire our Company to negotiate with our Board prior to attempting a takeover, thereby ensuring the continuity of our visionary management and strategies, minimizing potential business disruption, and enabling our Board to make more informed decisions for the benefit of our shareholders.

Under the rights agreement, certain person, group of affiliated or associated persons are exempted from becoming an Acquiring Person if they acquire or obtain the rights to acquire beneficial ownership of more than 10% of the total outstanding ordinary shares of the Company (the "**Exempt Person**"). Such Exempt Person include (i) the Company and any subsidiary of the Company, (ii) any employee benefit plan of the Company or of any subsidiary of the Company or any person organized, appointed or established by the Company and holding ordinary shares for or pursuant to the terms of any such employee benefit or compensation plan, and (iii) Mr. Zhou, his family members as defined under the Nasdaq rules, the entities controlled by Mr. Zhou or any of his family members and any of their Affiliates.

Our rights agreement has a term of five years from its effective date and is subject to early termination or extension by our Board.

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] after deducting estimated [REDACTED] fees and the estimated [REDACTED] expenses payable by us and based upon an indicative [REDACTED] of HK\$[REDACTED] per [REDACTED] for both the [REDACTED] and the [REDACTED], and assuming that the [REDACTED] is not exercised, or HK\$[REDACTED] if the [REDACTED] is exercised in full.

The [REDACTED] in the [REDACTED] may be higher than, or the same as, the [REDACTED] in the [REDACTED]. See "Structure of the [REDACTED] – [REDACTED]."

We plan to use the net [REDACTED] we will receive from the [REDACTED] for the following purposes:

- **Approximately [REDACTED]% (approximately HK\$[REDACTED], assuming the [REDACTED] is not exercised) is expected to be used over the course of the next 3 years for research and development to enhance our technology and credit assessment capabilities, and develop more diversified technology solutions in response to the evolving needs of financial institutions and fine-tune our services and solutions particularly:**
 - Approximately [REDACTED]% will be used to continue enhancing and upgrading the key capabilities of our Argus Engine and Cosmic Cube Pricing Model and the underlying AI-driven data analytics and other advanced technologies, thereby refining our credit assessment and pricing from precision and efficiency standpoints. In particular, we plan to further invest in the research on AI deep learning, including further enhancing our technologies in the areas of community detection graph computing, federated learning, social network computing, and intelligent strategy robots, among others, to reiterate our strong performance in credit assessment. For example, we plan to develop a computing platform that is able to expand social network analysis to cover 100 million to 1 billion nodes, which we believe will enable us to perform deeper analysis of data and to enrich the factors that we can use in assessing users' credit profiles, thereby further advancing our credit assessment capabilities. We also expect to construct a credit assessment system based on federated learning to achieve comprehensive utilization of data while ensuring the data assets of the collaborating parties are isolated for data privacy and protection purposes;
 - Approximately [REDACTED]% will be used to continue to develop and enhance technology infrastructure and systems to support the growth of our business, including (i) purchasing and/or leasing more servers to expand our infrastructure network and support the expansion of our business volume and user base, (ii) strengthening the versatility of our technology infrastructure and software technologies so that we are able to agilely adapt our services and operations to the evolving market demand. For example, we plan to (i) devote

USE OF [REDACTED]

more resources to the development of our intelligent user acquisition platform to enhance our user profiling ability and optimize our user base and user acquisition efficiency, (ii) continually upgrade 360 Jietiao app with more emphasis on its technology features and provide differentiated services for different user and borrower groups to improve our capability in converting users with approved credit lines to borrowers who have successfully requested drawdowns; and (iii) build a big data platform that provides services in data exploration, AI model training and other data related services to support the operations of our business and our business partners, and optimizes the efficiency for us and our business partners in data processing, modeling and real-time upgrading from a weekly time frame to within several hours;

- Approximately [REDACTED]% will be used to continue to invest in the development of frontier technologies that are pivotal to the success of a Credit-Tech platform, including (i) exploring the application of blockchain technologies in enhancing transaction and data security, such as utilizing blockchain technologies to build a web 3.0 infrastructure that does not require any centralized method of verification but rather tracks individuals' credentials, affiliations and other information to provide a convenient means of identity verification for all users and financial institutions, (ii) exploring the application of metaverse in the financial industry to be applied in large-scale, complex computing that requires high performance, three dimensional engine and other application scenarios, providing users with an immersive experience to a three dimensional digital world, and (iii) continuing the development of intelligent robots in automating the development and optimization process, to further solidify our technology advantages. We plan on upgrading the main functions of the intelligent robots so that they could automatically generate front-end and back-end automated tests, and operate, maintain and deploy codes based on the specific business needs inputted to the system. For business needs of medium and low computing complexity, the intelligent robots are expected to significantly reduce the costs and time required for software development; and
- Approximately [REDACTED]% will be used to continue to develop and diversify technology solutions spanning across the loan lifecycle and needs of the financial institutions along their operations, and research on the modularization of our technology solutions, and their functions to further enhance our ability to customize our services to financial institutions. For example, we plan to develop an intelligent finance cloud. Through the intelligent finance cloud, we expect to aggregate our core technology capabilities on a centralized platform, establish channels for the flow of data among the distinct internal systems of the financial institutions, and eventually provide financial institutions with credit business management services and a

USE OF [REDACTED]

comprehensive suite of AI solutions to enable financial institutions to improve their overall operational efficiency in using and managing data, as well as conducting ordinary businesses, via the same platform.

Implementing the initiatives as set forth above will require us to continue to recruit, retain and effectively incentivize research fellows. Specifically, we expect our talents in the AI field to be equipped with profound knowledge on the current development and future trends in the field and have participated in the study of deep learning, knowledge graph, privacy computing and other core areas of expertise for at least five years. We target to have senior professionals, who have obtained a doctorate degree, or have influential scientific research in related fields (such as research papers, software copyright, patents, self-developed products, innovative technologies), or have won international awards, to constitute no less than 30% of our new hires to the R&D and algorithm teams.

- **Approximately [REDACTED]% (approximately HK\$[REDACTED], assuming the [REDACTED] is not exercised) is expected to be used over the course of the next 3 years for further penetrating the Credit-Tech Industry and expanding user base, particularly:**
 - Approximately [REDACTED]% will be used to strengthen our online and offline sales and marketing efforts, including:
 - (i) expanding collaboration with platforms on targeted advertising, leads generation, service embedment and other cooperation to attract more users to our platform and increase our user acquisition efficiency. There are three main types of platforms that we expect to collaborate with. First, we expect to collaborate with leading media platforms in more depth to achieve greater coverage of our Real Time Advertising Programming Interface Data Management System among such platforms to utilize the data collected for the enhancement of our algorithms in user profiling. Second, we plan to establish collaborations with other platforms to conduct joint user acquisition through the collective development of computer modeling and differentiated marketing. Third, we plan to further collaborate with businesses that have rich data of diversified consumer groups, such as mobile carriers and cell phone manufacturers;
 - (ii) continuing to engage offline teams of sales personnel so that we can attract and address users in more geographical areas to our platform, and we can better understand borrowers' and financial institutions' needs along our business expansion. Specifically, to reinforce our market reputation and further enhance our business scale, we plan to deploy offline sales personnel to promote our services to prospective borrowers who have strong credit profiles and encourage existing users to refer our services to their connections. To expand our SME user base, we will

USE OF [REDACTED]

designate sales personnel to areas where SMEs have exhibited strong growth trajectory to better serve SME users. We will also optimize our products tailored for SMEs to streamline the service process and increase the competitiveness of our offerings; and

- Approximately [REDACTED]% will be used to improve our brand awareness and perception by conducting online and offline brand promotions and other marketing activities to attract users with lower credit risks.
- **Approximately [REDACTED]% (approximately HK\$[REDACTED], assuming the [REDACTED] is not exercised) is expected to be used over the course of the next 3 years for general corporate purposes and working capital needs.**

To the extent that the net [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we will place such funds as short term deposits with authorized financial institutions and licensed banks, so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

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The following is the text of a report set out on pages IA-1 to IA-72, received from the Company’s reporting accountants, [Deloitte Touche Tohmatsu], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this [REDACTED].



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF 360 DIGITECH, INC. AND CITIGROUP GLOBAL MARKETS ASIA LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of 360 DigiTech, Inc. (formerly known as 360 Finance, Inc.) (the “Company”) and its subsidiaries (together, the “Group”) set out on pages IA-4 to IA-72, which comprises the consolidated balance sheets of the Group as at December 31, 2019, 2020, 2021 and June 30, 2022, the consolidated statements of operations, the consolidated statements of comprehensive income or loss, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2021 and the six months ended June 30, 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages IA-4 to IA-72 forms an integral part of this report, which has been prepared for inclusion in the [REDACTED] of the Company dated [●] (the “[REDACTED]”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX IA**ACCOUNTANTS' REPORT**

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2019, 2020, 2021 and June 30, 2022 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of operations, the consolidated statement of comprehensive income or loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2021 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

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ACCOUNTANTS' REPORT

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IA-4 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which contains information about the dividends declared and paid by the Company in respect of the Track Record Period.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[●]

APPENDIX IA**ACCOUNTANTS’ REPORT**

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The Historical Financial Information in this report was prepared based on previously issued consolidated financial statements of the Group for each of the three years ended December 31, 2021 and the consolidated financial statements of the Group for the six months ended June 30, 2022 (collectively referred as the “Underlying Financial Statements”). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). The previously issued consolidated financial statements of the Group for each of the three years ended December 31, 2021 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”) relating to the consolidated financial statements and the effectiveness of internal control over financial reporting. The consolidated financial statements of the Group for the six months ended June 30, 2022 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the PCAOB relating to the consolidated financial statements only.

The Historical Financial Information is presented in Renminbi (“RMB”) and United States Dollars (“US\$” or “USD”) and all values are rounded to the nearest thousand except when otherwise indicated.

APPENDIX IA

ACCOUNTANTS' REPORT

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	<i>Notes</i>	As of December 31,			As of June 30,	
		2019 RMB	2020 RMB	2021 RMB	2022 RMB	2022 USD (Note 2)
ASSETS						
Current assets:						
Cash and cash equivalents		2,108,123	4,418,416	6,116,360	6,965,238	1,039,883
Restricted cash (including RMB354,104, RMB348,976, RMB657,075 and RMB1,420,864 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)		1,727,727	2,355,850	2,643,587	3,764,988	562,098
Security deposit prepaid to third-party guarantee companies		932,983	915,144	874,886	698,478	104,280
Funds receivable from third party payment service providers		118,860	131,464	153,151	312,447	46,647
Accounts receivable and contract assets, net (net of allowance of RMB189,829, RMB217,306, RMB287,538 and RMB295,934 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	3	2,332,364	2,394,528	3,097,254	3,499,385	522,444
Financial assets receivable, net (net of allowance of RMB164,563, RMB322,094, RMB432,658 and RMB455,181 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	4	1,912,554	3,565,482	3,806,243	3,618,560	540,237
Amounts due from related parties (net of allowance of RMB68,567, RMB10,333, RMB99,962 and RMB117,339 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	10	478,767	193,305	837,324	733,386	109,492
Loans receivable, net (including RMB9,099,099, RMB6,447,233, RMB8,646,950 and RMB9,545,367 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	5	9,239,565	7,500,629	9,844,481	10,850,458	1,619,931
Prepaid expenses and other assets (including RMB95,840, RMB101,729, RMB104,515 and RMB104,515 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)		652,545	401,224	383,937	364,908	54,479
Total current assets		19,503,488	21,876,042	27,757,223	30,807,848	4,599,491

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ACCOUNTANTS' REPORT

	<i>Notes</i>	As of December 31,			As of June 30,	
		2019 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>	2022 <i>RMB</i>	2022 <i>USD</i>
Non-current assets:						
Accounts receivable and contract assets, net-noncurrent (net of allowance of RMB1,763, RMB38,521, RMB28,374 and RMB28,779 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	3	19,508	307,937	223,474	291,908	43,581
Financial assets receivable, net-noncurrent (net of allowance of RMB6,240, RMB68,740, RMB60,988 and RMB64,382 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	4	59,270	645,326	597,965	683,078	101,981
Amounts due from related parties (net of allowance of RMB nil, RMB nil, RMB22,055 and RMB7,837 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	10	–	–	140,851	55,136	8,231
Loans receivable, net-noncurrent (including RMB nil, RMB37,157, RMB1,829,804 and RMB1,023,231 from the consolidated trusts as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively)	5	–	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	6	–	–	1,018,908	1,008,548	150,572
Intangible assets		3,512	3,403	4,961	5,231	781
Deferred tax assets	11	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
TOTAL ASSETS		20,355,601	24,387,305	33,504,995	37,666,108	5,623,402

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ACCOUNTANTS' REPORT

	<i>Notes</i>	As of December 31,			As of June 30,	
		2019 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>	2022 <i>RMB</i>	2022 <i>USD</i> <i>(Note 2)</i>
LIABILITIES AND EQUITY						
LIABILITIES						
Liabilities including amounts of the consolidated VIEs and trusts without recourse to the Company (Note 2):						
Current liabilities:						
Payable to investors of the consolidated trusts-current		4,423,717	3,117,634	2,304,518	5,224,973	780,068
Accrued expenses and other current liabilities	8	720,918	809,761	2,258,329	2,117,357	316,113
Amounts due to related parties	10	55,622	71,562	214,057	178,687	26,677
Short-term loans	7	200,000	186,800	397,576	611,164	91,244
Guarantee liabilities-stand ready	9	2,212,125	4,173,497	4,818,144	4,538,963	677,649
Guarantee liabilities-contingent	9	734,730	3,543,454	3,285,081	3,320,414	495,725
Income tax payable	11	1,056,219	1,227,314	624,112	654,347	97,691
Other tax payable		263,856	254,486	241,369	177,611	26,517
Total current liabilities		9,667,187	13,384,508	14,143,186	16,823,516	2,511,684
Non-current liabilities:						
Deferred tax liabilities	11	–	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
TOTAL LIABILITIES		13,140,871	14,906,215	18,288,386	20,645,130	3,082,237

APPENDIX IA

ACCOUNTANTS' REPORT

	As of December 31,			As of June 30,	
	2019	2020	2021	2022	2022
	RMB	RMB	RMB	RMB	USD
					(Note 2)
Commitments and Contingencies					
(Note 17)					
SHAREHOLDERS' EQUITY					
Ordinary shares (\$0.00001 par value per share 5,000,000,000 shares authorized, 302,707,339 shares issued and 293,420,800 shares outstanding as of December 31, 2019, 309,833,035 shares issued and 304,453,780 shares outstanding as of December 31, 2020, 315,433,018 shares issued and 310,486,975 shares outstanding as of December 31, 2021, 315,433,018 shares issued and 312,459,711 shares outstanding as of June 30, 2022, respectively)	20	21	22	22	3
Additional paid-in capital	5,117,184	5,417,406	5,672,267	5,771,100	861,603
Retained earnings	2,071,332	4,137,542	9,642,506	11,314,746	1,689,247
Other comprehensive income (loss)	24,906	(74,391)	(110,932)	(67,612)	(10,094)
TOTAL 360 DIGITECH, INC. EQUITY	7,213,442	9,480,578	15,203,863	17,018,256	2,540,759
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
TOTAL LIABILITIES AND EQUITY	20,355,601	24,387,305	33,504,995	37,666,108	5,623,402

The accompanying notes are an integral part of the Historical Financial Information.

APPENDIX IA

ACCOUNTANTS' REPORT

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

<i>Notes</i>	Year ended December 31,			Six months ended June 30,		
	2019 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>	2021 <i>RMB</i> <i>(unaudited)</i>	2022 <i>RMB</i>	2022 <i>USD</i> <i>(Note 2)</i>
Revenue, net of value-added tax and related surcharges:						
Credit driven services	8,013,391	11,403,675	10,189,167	4,856,038	5,868,397	876,129
Loan facilitation and servicing fees-capital heavy (including revenue from related parties of RMB791,482, RMB121,933, RMB93, RMB93 (unaudited) and RMB1,515 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	6,273,131	4,596,555	2,326,027	1,265,047	1,141,771	170,462
Financing income	1,309,616	2,184,180	2,184,128	897,528	1,608,820	240,191
Revenue from releasing of guarantee liabilities	285,407	4,506,935	5,583,135	2,647,734	3,074,515	459,013
Other services fees	145,237	116,005	95,877	45,729	43,291	6,463
Platform services	1,206,456	2,160,279	6,446,478	2,744,729	2,634,849	393,373
Loan facilitation and servicing fees-capital light (including revenue from related parties of RMB48,747, RMB214,296, RMB2,160,856, RMB1,036,893 (unaudited) and RMB656,203 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	814,581	1,826,654	5,677,941	2,392,602	2,128,955	317,845
Referral services fees (including revenue from related parties of RMB197,018, RMB10,149, RMB7,670, RMB nil (unaudited) and RMB108,757, for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	375,551	265,300	620,317	286,594	382,650	57,128
Other services fees (including revenue from related parties of RMB nil, RMB nil, RMB8,571, RMB13,050 (unaudited) and RMB20,526 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	16,324	68,325	148,220	65,533	123,244	18,400
Total net revenue	9,219,847	13,563,954	16,635,645	7,600,767	8,503,246	1,269,502

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ACCOUNTANTS’ REPORT

<i>Notes</i>	Year ended December 31,			Six months ended June 30,		
	2019 RMB	2020 RMB	2021 RMB	2021 RMB <i>(unaudited)</i>	2022 RMB	2022 USD <i>(Note 2)</i>
Operating costs and expenses:						
Facilitation, origination and servicing (including costs charged by related parties of RMB47,203, RMB93,178, RMB142,325, RMB57,639 (unaudited) and RMB63,448 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	1,083,372	1,600,564	2,252,157	1,035,735	1,170,561	174,760
Funding costs	344,999	595,623	337,426	162,242	227,630	33,984
Sales and marketing (including expenses charged by related parties of RMB57,319, RMB40,030, RMB367,320, RMB113,988 (unaudited) and RMB246,546 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	2,851,519	1,079,494	2,090,374	884,946	1,167,657	174,327
General and administrative (including expenses charged by related parties of RMB24,540, RMB10,673, RMB13,409, RMB6,451 (unaudited) and RMB8,252 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	428,189	455,952	557,295	243,774	216,148	32,270
Provision for loans receivable	486,991	698,701	965,419	381,887	907,317	135,459
Provision for financial assets receivable (including provision generated from related parties of RMB15,236, RMB26,337, RMB807, RMB807 (unaudited) and RMB342 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	166,176	312,058	243,946	103,576	164,217	24,517
Provision for accounts receivable and contract assets (including provision generated from related parties of RMB35,276, RMB75,070, RMB124,095, RMB78,542 (unaudited) and RMB13,400 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)	230,280	237,277	324,605	157,116	117,025	17,471
Provision for contingent liabilities	–	4,794,127	3,078,224	1,220,586	2,162,638	322,873

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ACCOUNTANTS' REPORT

	Notes	Year ended December 31,			Six months ended June 30,		
		2019 RMB	2020 RMB	2021 RMB	2021 RMB (unaudited)	2022 RMB	2022 USD (Note 2)
Expense on guarantee liabilities (including provision generated from related parties of RMB67,587, RMB nil, RMB nil, RMB nil (unaudited) and RMB nil for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively)		734,730	-	-	-	-	-
Total operating costs and expenses		6,326,256	9,773,796	9,849,446	4,189,862	6,133,193	915,661
Income from operations		2,893,591	3,790,158	6,786,199	3,410,905	2,370,053	353,841
(Expense) interest income, net		(41,707)	77,169	126,256	82,875	68,188	10,180
Foreign exchange (loss) gain		(24,875)	101,534	35,549	13,895	(86,658)	(12,938)
Investment income (loss)		-	-	10,115	-	(8,996)	(1,343)
Other income, net		140,278	112,884	64,590	50,811	203,458	30,375
Income before income tax expense		2,967,287	4,081,745	7,022,709	3,558,486	2,546,045	380,115
Income tax expense	11	(465,983)	(586,036)	(1,258,196)	(663,357)	(396,732)	(59,231)
Net income		2,501,304	3,495,709	5,764,513	2,895,129	2,149,313	320,884
Net loss (income) attributable to non-controlling interests		291	897	17,212	(42)	10,024	1,497
Net income attributable to ordinary shareholders of the Company		2,501,595	3,496,606	5,781,725	2,895,087	2,159,337	322,381
Net income per ordinary share attributable to ordinary shareholders of 360 DigiTech, Inc.							
Basic	18	8.66	11.72	18.82	9.46	6.94	1.04
Diluted	18	8.31	11.40	17.99	9.02	6.74	1.01
Net income per ADS attributable to ordinary shareholders of 360 DigiTech, Inc. (1)							
Basic		17.32	23.44	37.64	18.92	13.88	2.08
Diluted		16.62	22.80	35.98	18.04	13.48	2.02
Weighted average shares used in calculating net income per ordinary share							
Basic		288,827,604	298,222,207	307,265,600	305,886,883	311,109,257	311,109,257
Diluted		300,938,470	306,665,099	321,397,753	320,958,192	320,251,194	320,251,194

(1) Based on ADS ratio of 1 ADS to 2 ordinary shares.

The accompanying notes are an integral part of the Historical Financial Information.

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ACCOUNTANTS' REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS
(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Year ended December 31,			Six months ended June 30,		
	2019	2020	2021	2021	2022	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>USD</i>
				<i>(unaudited)</i>		<i>(Note 2)</i>
Net income	<u>2,501,304</u>	<u>3,495,709</u>	<u>5,764,513</u>	<u>2,895,129</u>	<u>2,149,313</u>	<u>320,884</u>
Other comprehensive income (loss), net of tax of nil:						
Foreign currency translation adjustment	<u>21,223</u>	<u>(99,297)</u>	<u>(36,541)</u>	<u>(15,792)</u>	<u>43,320</u>	<u>6,468</u>
Other comprehensive income (loss)	<u>21,223</u>	<u>(99,297)</u>	<u>(36,541)</u>	<u>(15,792)</u>	<u>43,320</u>	<u>6,468</u>
Total comprehensive income	<u>2,522,527</u>	<u>3,396,412</u>	<u>5,727,972</u>	<u>2,879,337</u>	<u>2,192,633</u>	<u>327,352</u>
Comprehensive loss (income) attributable to non-controlling interests	<u>291</u>	<u>897</u>	<u>17,212</u>	<u>(42)</u>	<u>10,024</u>	<u>1,497</u>
Comprehensive income attributable to ordinary shareholders	<u><u>2,522,818</u></u>	<u><u>3,397,309</u></u>	<u><u>5,745,184</u></u>	<u><u>2,879,295</u></u>	<u><u>2,202,657</u></u>	<u><u>328,849</u></u>

The accompanying notes are an integral part of the Historical Financial Information.

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

		Number of		Accumulated		Other	Non-	Total
	Notes	ordinary	Ordinary	Additional	(deficit)/	Comprehensive	controlling	equity
		shares	shares	Paid-in	Retained	Income (loss)	interests	
			RMB	capital	earnings	RMB	RMB	RMB
				RMB	RMB			
Balance as of December 31, 2018		287,652,707	20	4,866,756	(430,263)	3,683	-	4,440,196
Issuance of ordinary shares	13	5,768,093	-	-	-	-	-	-
Share-based compensation	12	-	-	250,428	-	-	-	250,428
Other comprehensive income		-	-	-	-	21,223	-	21,223
Net income (loss)		-	-	-	2,501,595	-	(291)	2,501,304
Contribution by non-controlling interests		-	-	-	-	-	1,579	1,579
Balance as of December 31, 2019		293,420,800	20	5,117,184	2,071,332	24,906	1,288	7,214,730
Adoption of ASC 326		-	-	-	(1,430,396)	-	-	(1,430,396)
Issuance of ordinary shares	13	11,032,980	1	-	-	-	-	1
Share-based compensation	12	-	-	301,161	-	-	-	301,161
Other comprehensive loss		-	-	-	-	(99,297)	-	(99,297)
Net income (loss)		-	-	-	3,496,606	-	(897)	3,495,709
Contribution by non-controlling interests		-	-	-	-	-	129	129
Acquisition of non-controlling interests		-	-	(939)	-	-	(8)	(947)
Balance as of December 31, 2020		304,453,780	21	5,417,406	4,137,542	(74,391)	512	9,481,090
Issuance of ordinary shares	13	6,033,212	1	-	-	-	-	1
Cancellation of ordinary shares		(17)	-	-	-	-	-	-
Share-based compensation	12	-	-	253,922	-	-	-	253,922
Dividends to shareholders	15	-	-	-	(276,761)	-	-	(276,761)
Other comprehensive loss		-	-	-	-	(36,541)	-	(36,541)
Net income (loss)		-	-	-	5,781,725	-	(17,212)	5,764,513
Disposal of a subsidiary		-	-	939	-	-	(554)	385
Contribution by non-controlling interests holders to a subsidiary		-	-	-	-	-	30,000	30,000
Balance as of December 31, 2021		310,486,975	22	5,672,267	9,642,506	(110,932)	12,746	15,216,609

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	<i>Notes</i>	Number of ordinary shares	Ordinary shares <i>RMB</i>	Additional Paid-in capital <i>RMB</i>	Retained earnings <i>RMB</i>	Other Comprehensive Income (loss) <i>RMB</i>	Non- controlling interests <i>RMB</i>	Total equity <i>RMB</i>
(unaudited)								
Balance as of December 31, 2020		304,453,780	21	5,417,406	4,137,542	(74,391)	512	9,481,090
Issuance of ordinary shares	13	3,310,860	-	-	-	-	-	-
Share-based compensation	12	-	-	126,830	-	-	-	126,830
Other comprehensive income		-	-	-	-	(15,792)	-	(15,792)
Net income		-	-	-	2,895,087	-	42	2,895,129
Balance as of June 30, 2021		307,764,640	21	5,544,236	7,032,629	(90,183)	554	12,487,257
	<i>Notes</i>	Number of ordinary shares	Ordinary shares <i>RMB</i>	Additional Paid-in capital <i>RMB</i>	Retained earnings <i>RMB</i>	Other loss <i>RMB</i>	Non- controlling interests <i>RMB</i>	Total equity <i>RMB</i>
Balance as of December 31, 2021		310,486,975	22	5,672,267	9,642,506	(110,932)	12,746	15,216,609
Issuance of ordinary shares	13	1,972,736	-	-	-	-	-	-
Share-based compensation	12	-	-	98,833	-	-	-	98,833
Dividends to shareholders	15	-	-	-	(487,097)	-	-	(487,097)
Other comprehensive loss		-	-	-	-	43,320	-	43,320
Net income (loss)		-	-	-	2,159,337	-	(10,024)	2,149,313
Balance as of June 30, 2022		312,459,711	22	5,771,100	11,314,746	(67,612)	2,722	17,020,978

The accompanying notes are an integral part of the Historical Financial Information.

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

	Year ended December 31,			Six months ended June 30,		
	2019 RMB	2020 RMB	2021 RMB	2021 RMB <i>(unaudited)</i>	2022 RMB	2022 USD <i>(Note 2)</i>
Cash Flows from Operating Activities:						
Net income	2,501,304	3,495,709	5,764,513	2,895,129	2,149,313	320,884
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation, amortization and reduction in right-of-use assets	7,642	36,063	65,973	23,761	39,650	5,920
Share-based compensation	250,428	301,161	253,922	126,830	98,833	14,755
Gain on disposal of investment	–	–	(10,115)	–	–	–
Investment loss	–	–	–	–	8,996	1,343
Provision for loans receivable, financial assets receivable and accounts receivable and contract assets	883,447	1,248,036	1,553,970	642,579	1,188,559	177,447
Provision for contingent liabilities	–	4,794,127	3,078,225	1,220,586	2,162,638	322,873
Foreign exchange loss (gain)	19,461	(101,534)	(35,550)	(13,895)	86,658	12,938
Changes in operating assets and liabilities						
Funds receivable from third party payment service providers	23,762	(12,604)	(21,687)	24,034	(159,295)	(23,782)
Accounts receivable and contract assets	(755,132)	(512,799)	(819,931)	152,151	(574,191)	(85,724)
Financial assets receivable	(929,143)	(2,464,534)	(436,538)	(534,353)	(61,305)	(9,153)
Prepaid expenses and other assets	(536,940)	253,185	11,378	86,702	15,698	2,344
Security deposit prepaid to third-party guarantee companies	(137,283)	17,839	40,258	(45,848)	176,407	26,337
Deferred tax	(713,106)	(326,542)	647,429	432,815	(172,895)	(25,813)
Other non-current assets	(55,362)	(18,423)	(27,846)	(9,659)	(54,068)	(8,072)
Amounts due (from) to related parties	(68,138)	199,995	(776,431)	(752,106)	140,542	20,982
Guarantee liabilities	1,547,680	(1,912,852)	(2,691,248)	(1,171,421)	(2,406,485)	(359,279)
Income tax payable	624,153	171,095	(603,202)	(350,383)	30,234	4,514
Other tax payable	99,378	52,056	(13,117)	(5,749)	(63,758)	(9,519)
Land use rights, net	–	–	(1,036,178)	(1,036,178)	–	–
Accrued expenses and other current liabilities	206,801	88,842	897,670	360,563	(93,959)	(14,028)
Other long-term liabilities	31,184	(16,210)	(1,799)	(2,369)	20,969	3,131
Interest receivable/payable	(27,061)	33,200	(49,996)	(41,550)	5,370	802
Net cash provided by operating activities	2,973,075	5,325,810	5,789,700	2,001,639	2,537,911	378,900

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	Year ended December 31,			Six months ended June 30,		
	2019 RMB	2020 RMB	2021 RMB	2021 RMB <i>(unaudited)</i>	2022 RMB	2022 USD <i>(Note 2)</i>
Cash Flows from Investing Activities:						
Purchase of property and equipment and intangible assets	(25,558)	(15,272)	(25,307)	(9,807)	(4,476)	(668)
Loans provided to related parties	–	–	(50,000)	(50,000)	–	–
Repayment of loans provided to related parties	–	–	50,000	–	–	–
Investment in loans receivable	(26,339,327)	(38,720,482)	(40,168,794)	(17,336,499)	(24,707,860)	(3,688,786)
Collection of investment in loans receivable	17,504,444	39,628,524	34,131,231	15,108,308	22,023,551	3,288,030
Disposal of subsidiaries, net of cash received	–	–	(1,458)	–	3,349	500
Capital injection to an investee entity	–	–	–	–	(8,996)	(1,343)
Net cash (used in) provided by investing activities	(8,860,441)	892,770	(6,064,328)	(2,287,998)	(2,694,432)	(402,267)
Cash Flows from Financing Activities:						
Payment of [REDACTED] costs	(4,838)	–	–	–	–	–
Proceeds from short term loans	1,700,000	186,800	364,053	150,327	190,179	28,393
Repayment of short term loans	(1,500,000)	(200,000)	(150,000)	–	–	–
Loans from Qibutianxia	300,000	–	–	–	–	–
Loans payment to Qibutianxia	(300,000)	–	–	–	–	–
Cash received from investors of the consolidated trusts	8,360,230	3,092,101	5,928,773	3,015,273	4,514,320	673,970
Cash paid to investors of the consolidated trusts	(847,534)	(6,360,483)	(4,193,425)	(2,442,693)	(2,023,656)	(302,124)
Dividend to shareholders	–	–	–	–	(551,666)	(82,362)
Contribution from non-controlling interests	–	129	30,000	–	–	–
Acquisition of non-controlling interests	–	(947)	–	–	–	–
Loans received from non-controlling interests	–	–	344,487	344,487	–	–
Loans payment to non-controlling interests	–	–	(60,168)	(30,168)	–	–
Cash received from a related party for investment	–	–	354,667	344,487	–	–
Cash repayment to a related party	–	–	(354,667)	(30,168)	–	–

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ACCOUNTANTS' REPORT

	Year ended December 31,			Six months ended June 30,		
	2019 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>	2021 <i>RMB</i> <i>(unaudited)</i>	2022 <i>RMB</i>	2022 <i>USD</i> <i>(Note 2)</i>
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
Effect of foreign exchange rate changes	1,762	2,236	(3,411)	(2,752)	(2,377)	(355)
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, beginning of year/period	2,013,596	3,835,850	6,774,266	6,774,266	8,759,947	1,307,826
Cash, cash equivalents, and restricted cash, end of year/period	3,835,850	6,774,266	8,759,947	7,836,700	10,730,226	1,601,981
Supplemental disclosures of cash flow information:						
Income taxes paid	(557,295)	(741,490)	(1,213,913)	(580,879)	(539,393)	(80,529)
Interest paid (not including interest paid to investors of consolidated trusts)	(65,776)	(5,728)	(13,757)	(6,727)	(3,941)	(588)
Supplemental disclosure of significant non-cash investing and financing activities:						
Payables for dividends:	–	–	276,991	–	230,095	34,352
Reconciliation to amounts on the consolidated balance sheets:						
Cash and cash equivalents	2,108,123	4,418,416	6,116,360	5,191,999	6,965,238	1,039,883
Restricted cash	1,727,727	2,355,850	2,643,587	2,644,701	3,764,988	562,098
Total cash, cash equivalents, and restricted cash	3,835,850	6,774,266	8,759,947	7,836,700	10,730,226	1,601,981

The accompanying notes are an integral part of the Historical Financial Information.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Amounts in thousands of RMB and USD except for number of shares and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in Cayman Islands with limited liability on April 27, 2018. The Group are engaged in matching individual borrowers with credit demand to a diversified pool of financial institutions with credit to supply through a financial technology platform.

The Company’s significant subsidiaries and its consolidated Variable Interest Entities (“VIEs”) as of June 30, 2022 are as follows:

	Date of Incorporation	Place of Incorporation
Subsidiaries		
HK Qirui International Technology Company Limited (“HK Qirui”)	June 14, 2018	Hong Kong
Shanghai Qiyue Information & Technology Co., Ltd. (“Qiyue”)	August 7, 2018	PRC
Shanghai Qidi Information Technology Co., Ltd. (“Qidi”)	June 27, 2019	PRC
Beihai Qicheng Information & Technology Co., Ltd. (“Qicheng”)	August 6, 2019	PRC
VIEs and VIEs’ Subsidiaries		
Shanghai Qiyu Information & Technology Co., Ltd. (“Qiyu”)	July 25, 2016	PRC
Fuzhou 360 Online Microcredit Co., Ltd. (“Fuzhou Microcredit”)	March 30, 2017	PRC
Fuzhou 360 Financing Guarantee Co., Ltd. (“Fuzhou Guarantee”)	June 29, 2018	PRC
Shanghai Qiyaoxin Technology Co., Ltd. (formerly known as “Shanghai 360 Financing Guarantee Co., Ltd.”, “Shanghai Financing Guarantee”)	May 20, 2019	PRC

History of the Group and reorganization under identical common ownership

The Group started its business in 2016 through Qiyu, a limited liability company in the People’s Republic of China (“PRC”). In 2018, the Company undertook a series of transactions to redomicile its business from the PRC to the Cayman Islands and established intermediary companies of HK Qirui and Qiyue (“WFOE”) for the purpose of establishing a VIE structure of the Group. The WFOE entered into VIE agreements which effectively provided control to the WFOE over the operations of the VIEs.

The VIE arrangement

PRC laws and regulations prohibit or restrict foreign control of companies involved in provision of internet content and certain finance business. To comply with these foreign ownership restrictions, the Company operates substantially all of its service through its VIEs in the PRC.

The VIEs hold leases and other assets necessary to provide services and generate the majority of the Company’s revenues. To provide the Company effective control over the VIEs and the ability to receive substantially all of the economic benefits of the VIEs, a series of contractual arrangements were entered into amongst Qiyue (“WFOE”), VIEs and their beneficial shareholders. In June 2022, the set of VIE agreements were terminated and replaced by a set of new VIE agreements signed by the same parties, with no material changes to the major terms.

Agreements that were entered to provide the Company effective control over the VIEs

Voting Proxy Agreement

Pursuant to the voting proxy agreement entered into among WFOE, Qiyu and Shanghai Qibutianxia Information Technology Co., Ltd. (formerly known as Beijing Qibutianxia Technology Co., Ltd. “Qibutianxia”), Qibutianxia would irrevocably authorize the WFOE or any person designated by the WFOE to act as its attorney-in-fact to exercise all of its rights as a shareholder of Qiyu, including, but not limited to: (i) to convene and participate in shareholders’ meeting pursuant to the constitutional documents of Qiyu in the capacity of a proxy of Qibutianxia; (ii) to exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Qiyu, on behalf of Qibutianxia, and adopt resolutions, including but not limited to dividend rights, sale or transfer or pledge or disposal of part or all of Qiyu’s equity; (iii) to nominate, designate or appoint and remove the legal representative, directors, supervisors and other senior management of Qiyu pursuant to the constitutional documents of Qiyu.

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The Voting Proxy Agreement has an indefinite term and will be terminated in the event that (i) it is unilaterally terminated by the WFOE, or (ii) it is legally permissible for the WFOE, the Company or any of the subsidiaries to hold equity interests directly or indirectly in Qiyu and the WFOE or its designated person is registered to be the sole shareholder of Qiyu.

Exclusive Option Agreement

Pursuant to the exclusive option agreement entered into among WFOE, Qiyu and Qibutianxia, the sole Registered Shareholder of Qiyu, Qibutianxia irrevocably grants the WFOE an exclusive option to purchase or designate one or more persons to purchase, all or part of its equity interests in Qiyu, and Qiyu irrevocably grants the WFOE an exclusive option to purchase all or part of its assets, subject to applicable PRC laws. The WFOE or its designated person may exercise such options at the lowest price permitted under applicable PRC laws. Qibutianxia and Qiyu will undertake that, among other things, without the WFOE's prior written consent, including but not limited to: (i) they shall not in any manner supplement, change or amend the constitutional documents of Qiyu, increase or decrease their registered capital, or change the structure of their registered capital in other manner; (ii) they shall not at any time following the signing of the Exclusive Option Agreement, sell, transfer, pledge or dispose of in any manner any assets of Qiyu or interest in the business or revenues of Qiyu, or allow the encumbrance thereon of any security interest; (iii) they shall not cause or permit Qiyu to merge, consolidate with, acquire or invest in any person. In addition, Qibutianxia will undertake that, without the WFOE's prior written consent, it will not, among other things including, but not limited to, sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in Qiyu, or allow the encumbrance thereon of any security interest, except for the equity pledge under Qiyu's equity interests pursuant to the Equity Interest Pledge Agreement.

The Exclusive Option Agreement has an indefinite term commencing from its date of signing unless and until all the equity interests and assets subject to the agreement have been transferred to the WFOE and/or its designated person and the WFOE and its subsidiaries or affiliates can legally operate the business of Qiyu, whereby the exclusive option agreement shall terminate. WFOE is entitled to unilaterally terminate the Exclusive Option Agreement while other parties to the Exclusive Option Agreement may not terminate the Exclusive Option Agreement unilaterally, unless otherwise provided under PRC laws.

Agreements that were entered to transfer economic benefits to the Company

Exclusive Business Cooperation Agreement

Pursuant to the exclusive business cooperation agreement between the WFOE and Qiyu, Qiyu agreed to engage the WFOE as its exclusive service provider of, among other things, consulting and technical services required by Qiyu's business. Qiyu will agree to pay the WFOE service fee at the amount which is adjusted at the WFOE's sole discretion taking into account factors including but not limited to: (i) the management and technical difficulty and the complexity of the management, technical consulting and other services provided by the WFOE; (ii) the time required by relevant personnel of the WFOE in providing such management and technical consulting and other services; (iii) the exact content and business value of the management, technical consulting and other services; (iv) the exact content and business value of intellectual property license and lease provided by the WFOE; and (v) the market price of services of similar types. In addition, absent the prior written consent of the WFOE, during the term of the Exclusive Business Cooperation Agreement, with respect to the services subject to the Exclusive Business Cooperation Agreement and other matters, Qiyu and its subsidiaries shall not accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the exclusive business cooperation agreement with any third party. The WFOE would have the exclusive ownership of all the intellectual property rights created as a result of the performance of the Exclusive Business Cooperation Agreement to the extent permitted by applicable PRC laws. The Company considers that the arrangement will ensure the economic benefits generated from the operations of the consolidated affiliated entities flow to the WFOE and hence, the Group as a whole.

The Exclusive Business Cooperation Agreement has an indefinite term. The Exclusive Business Cooperation Agreement may be terminated by the WFOE: (i) when Qiyu becomes insolvent, bankrupt or subject to liquidation or dissolution procedures; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Qiyu to the WFOE or its designated person pursuant to the exclusive option agreement entered into between the WFOE, Qiyu and Qibutianxia; (iii) when it is legally permissible for the WFOE to hold equity interests directly or indirectly in Qiyu and the WFOE or its designated person is registered to be the shareholder of Qiyu; (iv) when relevant government authorities refuse to renew the expired operating period of Qiyu or the WFOE; (v) by giving Qiyu a 30 days' prior written notice of termination; or (vi) Qiyu breaches the Exclusive Business Cooperation Agreement. Qiyu is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with the WFOE.

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Loan Agreement

Pursuant to the loan agreement among the WFOE, Qiyu and Qibutianxia, the WFOE is entitled to provide interest-free loans, to the extent permitted by laws, regulations and industry policies of the PRC from time to time at such time and amount as it deems appropriate to Qibutianxia for the purpose of Qiyu's business operation and development, including but not limited to directly injecting such funds to the registered capital of Qiyu. Each of the loans made under this loan agreement has no fixed term, and unless otherwise agreed, the WFOE shall unilaterally decide when to withdraw the loans, provided that the WFOE shall notify Qibutianxia in writing one month in advance. The loan agreement shall remain in effect during Qiyu's term (and any renewable term provided by the PRC law), and shall automatically terminate after the WFOE and/or other entities designated by the WFOE fully exercise all their rights under the exclusive option agreement.

Equity Interest Pledge Agreement

Pursuant to the equity pledge agreement, Qibutianxia agreed to pledge all of its equity interests in Qiyu to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the VIE arrangements. In the event of a breach by Qiyu or Qibutianxia of contractual obligations under the VIE arrangements, the WFOE, as pledgee, will have the right to dispose of the pledged equity interests in Qiyu. Qibutianxia has undertaken to the WFOE, among other things, not to transfer its equity interests in Qiyu and not to create or allow any pledge thereon that may affect the rights and interest of the WFOE without its prior written consent.

The Company also has some other sets of VIE contractual arrangements. The arrangements with its significant VIEs include 1) the arrangement among the WFOE, Fuzhou Guarantee and Qibutianxia, and 2) the arrangement among the WFOE, Shanghai Financing Guarantee and two fully owned subsidiaries of Qibutianxia. These sets of the contractual agreements are substantially similar to the set with Qiyu as described above.

In April 2021, the contractual arrangements amongst WFOE, Fuzhou Microcredit and Qibutianxia were terminated and Qibutianxia transferred all of its equity interest in Fuzhou Microcredit to Qiyu. As a result, Fuzhou Microcredit became a wholly-owned subsidiary of Qiyu. This transaction had no impact to the consolidated financial statements.

Risks in relation to VIE structure

The Company believes that the contractual arrangements with Qiyu, Fuzhou Guarantee, Shanghai Financing Guarantee and their shareholders, Qibutianxia, are in compliance with existing PRC laws and regulations and are valid, binding and enforceable and will not result in any violation of PRC laws or regulations and the PRC regulatory authorities may take a contrary view. If the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the regulatory authorities may exercise their discretion and:

- revoke the business and operating licenses of the Company's PRC subsidiaries or consolidated affiliated entities;
- restrict the rights to collect revenues from any of the Company's PRC subsidiaries;
- discontinue or restrict the operations of any related-party transactions among the Company's PRC subsidiaries or consolidated affiliated entities;
- require the Company's PRC subsidiaries or consolidated affiliated entities to restructure the relevant ownership structure or operations;
- take other regulatory or enforcement action is, including levying fines that could be harmful to the Company's business; or
- impose additional conditions or requirements with which the Company may not be able to comply.

The imposition of any of these penalties may result in a material adverse effect on the Company's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIEs or the right to receive substantially all of their economic benefits, the Company would no longer be able to consolidate the financial results of the VIEs.

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These contractual arrangements allow the Company to effectively control Qiyu, Fuzhou Guarantee and Shanghai Financing Guarantee, and to derive substantially all of the economic benefits from them. Accordingly, the Company treats Qiyu, Fuzhou Guarantee and Shanghai Financing Guarantee as VIEs. Because the Company is the primary beneficiary, the Company has consolidated the financial results of the VIEs.

The following financial statement amounts and balances of the VIEs were included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances. The table below does not include the financial information of the consolidated trusts (see note 2 “Consolidated Trusts”):

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
ASSETS				
Cash and cash equivalents	1,829,395	3,709,740	4,605,851	6,556,202
Restricted cash	1,373,623	2,006,874	1,986,512	2,344,124
Funds receivable from third party payment service providers	118,860	131,464	153,151	312,447
Accounts receivable and contract assets, net	2,113,831	2,316,357	2,133,477	1,653,349
Financial assets receivable, net	1,764,738	3,480,605	3,806,243	3,618,560
Security deposit prepaid to third-party guarantee companies	932,983	915,144	874,886	698,478
Amounts due from related parties	478,767	178,791	608,924	384,804
Loans receivable, net	139,144	1,018,124	1,197,532	1,305,091
Prepaid expenses and other assets	507,907	202,070	235,780	253,539
Property and equipment, net	16,773	15,370	15,074	12,831
Intangible assets	1,933	1,802	3,972	4,433
Deferred tax assets	704,589	1,353,420	779,291	967,237
Accounts receivable and contract assets, net-non current	19,508	307,937	217,298	290,528
Financial assets receivable, net-non current	59,270	645,326	597,965	683,078
Amounts due from related parties-non current	–	–	121,855	49,627
Loans receivable, net-non current	–	50,528	1,029,545	2,634,648
Other non-current assets	55,362	31,539	27,729	48,602
Land use rights, net	–	–	1,018,908	1,008,548
Total Assets	10,116,683	16,365,091	19,413,993	22,826,126
LIABILITIES				
Short-term loans	200,000	105,238	150,000	150,000
Guarantee liabilities-stand ready	2,106,211	4,181,387	4,818,144	4,538,963
Guarantee liabilities-contingent	734,730	3,543,454	3,285,081	3,320,414
Accrued expenses and other current liabilities	680,987	771,562	1,820,609	1,617,329
Income tax payable	1,037,964	1,151,275	449,553	581,136
Other tax payable	206,291	215,906	218,017	108,509
Amounts due to related parties	55,622	71,562	94,057	82,063
Deferred tax liabilities	–	37,843	65,542	27,328
Other long-term liabilities	31,184	6,806	10,271	23,958
Total liabilities	5,052,989	10,085,033	10,911,274	10,449,700
	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2021
	RMB	RMB	RMB	RMB
				(unaudited)
Net revenue	7,318,362	11,062,032	13,674,223	6,248,574
Net income	1,707,839	2,541,386	5,462,150	1,566,142

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	Year ended December 31,			Six months ended June 30,	
	2019 RMB	2020 RMB	2021 RMB	2021 RMB	2022 RMB
Net cash provided by operating activities	2,010,741	3,715,112	5,431,654	1,861,811	2,453,285
Net cash provided by (used in) investing activities	134,286	(1,012,415)	(1,427,958)	(351,780)	(2,148,700)
Net cash provided by (used in) financing activities	198,242	(94,762)	359,082	673,400	–

(unaudited)

The consolidated VIEs contributed 79%, 82%, 82%, 82% (unaudited) and 79% of the Group’s consolidated revenue for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the consolidated VIEs accounted for an aggregate of 50%, 67%, 58% and 61%, respectively, of the consolidated total assets, and 38%, 68%, 60% and 51%, respectively, of the consolidated total liabilities.

There are no assets of the VIEs that are collateral for the obligations of the VIEs and their subsidiaries and can only be used to settle the obligations of the VIEs and their subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs ever need financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholder of the VIEs.

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Historical Financial Information of the Company has been prepared in accordance with U.S. GAAP. For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies, which are effective for the accounting period beginning on January 1, 2022, throughout the Track Record Period, except for the accounting standards as disclosed in Note 2 “Recent accounting pronouncements”.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

Basis of consolidation

The Historical Financial Information include the financial information of the Company, its subsidiaries, and consolidated VIEs. All intercompany transactions and balances have been eliminated.

Consolidated Trusts

Loans funded by the financial institution partners in the Group’s loan facilitation business are typically disbursed to the borrowers directly from such partners. However, in order to diversify the Group’s funding sources, lower the Group’s funding cost and due to the need of certain financial institution partners, loans from such financial institution partners are funded and disbursed indirectly through trusts. Several trusts were formed by third-party trust companies, who administer the trusts.

The trusts fund loans facilitated by the Group using the funds received from its beneficiaries to the borrowers. The trusts provide the returns to its beneficiaries through interest payments made by the borrowers. The borrowers are charged with the interests by the trusts. For the majority of trusts, the Group is either entitled to the residual profit in the trusts or the Group has provided guarantee to the trusts by agreeing to repurchase any loans that are delinquent for 30 to 90 days from which the Group absorbs the credit risk of the trusts resulting from borrowers’ delinquencies. The Group determined that the residual profit or the guarantee represents a variable interest in the trusts through which the Group has the right to receive benefits or the obligation to absorb losses from the trusts that could potentially be significant to the trusts. Since the trusts only invest in the loans facilitated by the Group and the Group

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continues to service the loans through a service agreement post origination and has the ability to direct default mitigation activities, the Group has the power to direct the activities of the trusts that most significantly impact the economic performance of the trusts. As a result, the Group is considered the primary beneficiary of the trusts and consolidated the trusts’ assets, liabilities, results of operations and cash flows.

In 2019, the Group received letter of approval for listing and transferring assets backed securities (“ABS”) on both Shanghai Stock Exchange and Shenzhen Stock Exchange within the issue scale of RMB5 billion for each, respectively. In 2020, the Group also received letter of approval for listing and transferring assets backed securities (“ABS”) on Shenzhen Stock Exchange within the issue scale of RMB10 billion. In 2021, the Group also received letter of approval for listing and transferring assets backed securities (“ABS”) on Shanghai Stock Exchange and Shenzhen Stock Exchange within the issue scale of RMB8 billion and RMB4 billion, respectively. For some trusts, the trust beneficial rights, or the loans receivable in the trusts, were transferred, as underlying assets, to the asset backed special plans (the “ABS plans”). The beneficial rights and loans receivable of RMB2.3 billion, RMB1.7 billion, RMB6.5 billion, RMB3.1 billion (unaudited) and RMB3.0 billion in trusts were transferred to the ABS plans for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. The ABS plans were securitized and listed on Shanghai Stock Exchange and Shenzhen Stock Exchange, with terms of no more than two years. As of June 30, 2022, the Group held the whole subordinated tranche securities to provide credit enhancement. The underlying trusts were continued to be consolidated by the Group. Senior tranche securities held by external financial institution partners were recorded as “payable to investors of the consolidated trusts – current” with the balance of RMB nil, RMB1,765,175, RMB2,139,063 and RMB4,019,635 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively and “payable to investors of the consolidated trusts – noncurrent” with the balance of RMB2,086,946, RMB1,468,890, RMB3,903,597 and RMB3,613,690 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively on the consolidated balance sheet.

As of December 31, 2019, 2020, 2021 and June 30, 2022, the balance of delinquent loans repurchased by the Group from the consolidated trusts are RMB89,938, RMB831,203, RMB904,586 and RMB1,194,155, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the balance of performing loans upon liquidation of certain consolidated trusts repurchased by the Group from the consolidated trusts per the contracts agreed with the counterparty are RMB18,014, RMB17,185, RMB12,686 and RMB16,081, respectively.

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, the provision for loan losses of RMB464,379, RMB595,047, RMB661,402, RMB238,525 (unaudited) and RMB463,750 were charged to the consolidated statements of operations, respectively. There were RMB142,882, RMB603,758, RMB1,033,228, RMB95,231 (unaudited) and RMB1,416,707 of loans written off for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Interest on loans receivable is accrued and credited to income as earned. The Group determines a loan’s past due status by the number of days that have elapsed since a borrower has failed to make a contractual loan payment. Accrual of interest is generally discontinued when the loan principal and interest are deemed to be uncollectible. In general, loans receivable is identified as uncollectible when it is determined to be not probable that the balance can be collected.

The following financial statement amounts and balances of the consolidated trusts were included in the Historical Financial Information after elimination of intercompany transactions and balances:

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
ASSETS				
Restricted cash	354,104	348,976	657,075	1,420,864
Loans receivable, net	9,099,099	6,447,233	8,646,950	9,545,367
Loans receivable, net-noncurrent	–	37,157	1,829,804	1,023,231
Prepaid expenses and other assets	95,840	101,729	104,515	104,515
	<u>9,549,043</u>	<u>6,935,095</u>	<u>11,238,344</u>	<u>12,093,977</u>
Total Assets	9,549,043	6,935,095	11,238,344	12,093,977

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	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	2022 <i>RMB</i>
LIABILITIES				
Payable to investors of the consolidated trusts-current	4,423,717	3,117,634	2,304,518	5,224,973
Accrued expenses and other current liabilities	19,460	9,608	5,928	11,285
Other tax payable	25,431	27,694	34,448	37,504
Payable to investors of the consolidated trusts-noncurrent	3,442,500	1,468,890	4,010,597	3,613,690
Total liabilities	<u>7,911,108</u>	<u>4,623,826</u>	<u>6,355,491</u>	<u>8,887,452</u>

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net revenue	1,279,203	2,089,679	1,704,267	663,907	1,108,643
Net income	469,825	899,010	708,908	263,141	418,827

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net cash provided by operating activities	382,620	(674,291)	1,329,554	486,996	916,753
Net cash (used in) provided by investing activities	(8,989,137)	1,964,538	(4,619,696)	(1,921,400)	(548,254)
Net cash provided by (used in) financing activities	7,512,696	(3,268,383)	1,735,348	572,579	2,490,664

The consolidated trusts contributed 14%, 15%, 10%, 9% (unaudited) and 13% of the Group's consolidated revenue for the years ended December 31, 2019, 2020, 2021 and six month ended June 30, 2021 and 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the consolidated trusts accounted for an aggregate of 47%, 28%, 34% and 32%, respectively, of the consolidated total assets, and 60%, 31%, 35% and 43%, respectively, of the consolidated total liabilities.

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There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company to provide financial support to the consolidated trusts.

The Group believes that the assets of the consolidated trusts could only be used to settle the obligations of the consolidated trusts.

The carrying amounts of the payable to investors of the consolidated trusts are repayable:

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	2022
				<i>RMB</i>
Within one year	4,423,717	3,117,634	2,304,518	5,224,973
Within a period of more than one year but not exceeding two years	3,442,500	1,468,890	4,010,597	3,613,690
Total	7,866,217	4,586,524	6,315,115	8,838,663
Less: Amounts due within one year shown under current liabilities	(4,423,717)	(3,117,634)	(2,304,518)	(5,224,973)
Amounts shown under non-current liabilities	3,442,500	1,468,890	4,010,597	3,613,690

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates. Significant accounting estimates reflected in the Group’s financial statements include revenue recognition, financial assets receivable, guarantee liabilities, allowance for loans receivable, allowance for uncollectible accounts receivable and contract assets, allowance for financial assets receivable, and valuation allowance for deferred tax assets.

Revenue recognition

Through collaborating with channel partners to direct users with credit needs to its app, the Group provides services through its facilitation of loan transactions between the borrowers and the financial institution partners through the use of two business models.

The first business model involves the Group providing credit driven services through facilitating loans that are guaranteed by the Group directly or through third-party guarantee companies and insurance companies (referred to as “off-balance capital heavy loans” hereafter), or providing loans through the Consolidated Trusts and Fuzhou Microcredit. In either cases, the Group ultimately bears all the credit risks when the borrowers default.

The second business model involves the Group providing platform services through facilitating loans with no or partial guarantee provided by the Group (referred to as “capital light loans” hereafter) and referral services. In these cases, the Group bears limited credit risks when the borrowers default.

The loans facilitated under both models are with terms of 1~36 months (the majority are within the terms of 1~12 months) and with principal of up to RMB1,000 (the majority are within RMB500).

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Loan facilitation and servicing fees

The Group earns loan facilitation and service fees from both off-balance capital heavy loans and capital light loans. The Group's services mainly consist of:

- 1) Performing customer acquisition, initial and credit screening and advanced risk assessment on the borrowers on its mobile platform and matching the 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 repayment processing services for the financial institution partners over the loan term, referred to as "Post Facilitation Services".

Based on the agreements entered into between the Group's financial institution partners and borrowers, the Group determined that it is not the legal lender or borrower in the loan origination and repayment process. Accordingly, the Group does not record loans receivable and payable arising from the loan between the financial institution partners and the borrowers.

The Group charges service fees directly from financial institution partners based on the contractual agreements. In 2019, the Group cooperates with insurance companies and financing guarantee companies to provide guarantee for the loans between the borrowers and financial institution partners. Under this cooperation, the Group charges guarantee fees from the borrower, including insurance premium collected on behalf of the insurance company.

For the loans the Group is entitled to the full service fee regardless of whether the borrowers choose to early repay or not, the Group has the unconditional right to the consideration. For the loans facilitated with borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees or not have to pay the excessive portion if the total fees are more than 24% of the origination principal on an annualized basis, the Group's right to consideration for the service fees is conditional on whether or not the borrowers repay in advance.

For off-balance capital heavy loans, the Group enjoys a fixed rate of service fees. For capital light loans, the Group enjoys a fixed rate of service fees, while in certain cases, the service fee rate the Group entitled to is subject to adjustment based on the actual default rate of the underlying loans.

Under the off-balance capital heavy loans, the Group also provides a guarantee service to its financial institution partners whereas in the event of default, the financial institution partners are entitled to receive unpaid interest and principal from the Group. Given that the Group effectively takes 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). Under the capital light model, the Group either provides no guarantee or partial guarantee service. Under the partial guarantee scenario, the Group agrees with each financial institution partner a fixed upper limit of guarantee amount the Group is liable of. If the accumulated defaulted loan amount exceeds the agreed upper limit, the excess portion is borne by the financial institution partners.

The Group recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. To achieve that core principle, the Group applies 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

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The Group determines that both the financial institution partners and the borrowers are its customers because they both receive services provided by the Group pursuant to the contractual terms among the Group, the borrowers and the financial institution partners. For each loan facilitated on the platform, the Group considers the loan facilitation service, post facilitation service and guarantee service (not applicable for arrangements where the Group does not provide 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 the guarantee services is recognized once the Group is released from the underlying risk. Starting from 2020, the Group 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). While the post-origination 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-origination 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 the Group's promises to deliver the services are separately identifiable from each other in the contract.

The Group determines the total transaction price to be the service fees chargeable from the borrowers or the financial institution partners. The Group's transaction price includes variable considerations in the form of prepayment risk of the borrowers and service fee allocation rate under capital light model under certain agreements. The Group estimates 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 the Group under capital light model would be fluctuated along with the actual default rate of the loans facilitated. The Group uses the service fee allocation rate applicable to the estimated default rate of the underlying loans. The transaction price is allocated amongst the guarantee service, if any, and the other two performance obligations.

The Group first allocates 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. The Group does not have observable standalone selling price information for the loan facilitation services or post facilitation services because it does 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 the Group. As a result, the estimation of standalone selling price involves significant judgment. The Group uses 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 its standalone selling price for the loan facilitation services and post facilitation services, the Group considers the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on the Group's services, and other market factors.

For each type of service, the Group recognizes revenue when (or as) the entity satisfies 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 originated 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. Revenues from post facilitation services are recognized on a straight-line basis over the term of the underlying loans as the post-origination services are a series of distinct services that are substantially the same and that have the same pattern of transfer to the financial institution partners.

Revenue from releasing of guarantee liabilities

Prior to 2020, guarantee liabilities were reduced by repayments for defaults and only the remaining balance at the expiry of the guarantee term was recognized as revenues from guarantee services. With the adoption of ASC 326 in 2020, the stand-ready guarantee liabilities are released into guarantee revenue over the term of the guarantee (see accounting policy for Guarantee Liabilities). For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, revenue from guarantee liabilities were RMB285,407, RMB4,506,935, RMB5,583,135, RMB2,647,734 (unaudited) and RMB3,074,515, respectively.

Incentives

The Group provides incentives to the borrowers by providing coupons which can only be used as a reduction of repayment and ultimately reduced the service fees received by the Group. Because the borrower does not enter into any enforceable commitment by picking up the coupons, no contract arises from the coupons. Therefore the Group records the incentives as a deduction to revenue upon redemption.

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Financing income

The Group provides loans through the Consolidated Trusts and Fuzhou Microcredit. The interest rate charged to the borrowers are fixed. The Group recognized revenue under “financing income” the fees and interests charged to the borrowers over the lifetime of the loans using the effective interest method.

Referral service fees

The Group provides the referral services to other platforms, by referring to them the borrowers who have not passed the Group’s credit assessment. Specifically, the Group receives a fixed rate of referral fee from the platforms once the borrowers are accepted by the other funding providers on those platforms. The revenue is recognized once the referral is completed as confirmed by those platforms.

The Group provides the referral services to the financial institution partners also through the Group’s Intelligence Credit Engine platform, by matching the borrowers and the financial institution partners. For loans originated through the platform, the Group charges the financial institution partners a fixed rate of service fees. The revenue is recognized upon receipt of confirmation by the financial institution partners of loan facilitation at which time the referral service is deemed completed.

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, RMB375,551, RMB265,300, RMB620,317 and RMB286,594 (unaudited) and RMB382,650, were generated from the referral service, respectively.

Other service fees

Other service fees mainly pertain to the revenue from late fees from borrowers under off-balance capital heavy loans and capital light loans.

The following table presents the disaggregation of revenue for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022:

		Year ended December 31,			Six months ended	
		2019	2020	2021	2021	2022
		RMB	RMB	RMB	RMB	RMB
		<i>(unaudited)</i>				
Credit driven services		8,013,391	11,403,675	10,189,167	4,856,038	5,868,397
Loan facilitation and servicing fees-capital heavy		6,273,131	4,596,555	2,326,027	1,265,047	1,141,771
Revenue from loan facilitation services	At a point in time	4,396,300	3,160,457	1,399,310	745,134	822,420
Revenue from post-facilitation services	Over time	1,876,831	1,436,098	926,717	519,913	319,351
Financing income	Over time	1,309,616	2,184,180	2,184,128	897,528	1,608,820
Revenue from releasing of guarantee liabilities	Over time	285,407	4,506,935	5,583,135	2,647,734	3,074,515
Other services fees	At a point in time	145,237	116,005	95,877	45,729	43,291
Platform services		1,206,456	2,160,279	6,446,478	2,744,729	2,634,849
Loan facilitation and servicing fees-capital light		814,581	1,826,654	5,677,941	2,392,602	2,128,955
Revenue from loan facilitation services	At a point in time	672,982	1,416,715	4,484,632	1,988,160	1,298,998
Revenue from post-facilitation services	Over time	141,599	409,939	1,193,309	404,442	829,957
Referral services fees	At a point in time	375,551	265,300	620,317	286,594	382,650
Other services fees	At a point in time/ Over time	16,324	68,325	148,220	65,533	123,244
Total net revenue		9,219,847	13,563,954	16,635,645	7,600,767	8,503,246

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Total revenue recognized at a point in time is RMB5,606 million, RMB5,022 million, RMB6,688 million, RMB3,105 million (unaudited) and RMB2,634 million for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022. Total revenue recognized over time is RMB3,613 million, RMB8,542 million, RMB9,947 million, RMB4,496 million (unaudited), RMB5,869 million for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022.

Accounts receivable and Contract Assets, net

For the loans the Group is entitled to the full service fee regardless of whether the borrowers choose to early repay or not, the Group has the unconditional right to the consideration and an accounts receivable is recorded for the monthly service fees allocated to loan facilitation service that have already been delivered in relation to loans facilitated on the Group's platform when recognizing revenue from loan facilitation service. For the loans facilitated with borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees or do not have to pay the excessive portion if the total fees are more than 24% of the origination principal on an annualized basis, the Group's right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. In these instances, the Group records a corresponding contract asset when recognizing revenue from loan facilitation service.

Accounts receivable and contract assets are stated at the historical carrying amount net of write-offs and allowance for collectability in accordance with ASC Topic 310, and from January 1, 2020 ASC Topic 326. The Group established 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 type of customers which is essentially the expected net default rates used in determining the fair value of guarantee liabilities. The Group evaluates and adjusts its allowance for uncollectible accounts receivable and contract assets on a quarterly basis or more often as necessary.

Uncollectible accounts receivable and contract assets are written off when the consideration entitled to be received by the Group is due and a settlement is reached for an amount that is less than the outstanding historical balance or when the Group has determined the balance will not be collected. Contract assets and accounts receivable are identified as uncollectible when the underlying loan is determined to be not probable that the balance can be collected. The Group will write off contract assets and accounts receivable and the corresponding provisions if the underlying loan is deemed uncollectible.

The Group did not recognize any contract liabilities during the periods presented. The amount of the transaction price allocated to performance obligations that are unsatisfied as of December 31, 2019, 2020, 2021 and June 30, 2022, are RMB978,811, RMB1,195,945, RMB1,637,484 and RMB1,518,044, respectively, all of which pertain to post-origination service. Remaining unsatisfied performance obligations that will be recognized as revenue by the Group within the following 12 months are 99%, 88%, 88% and 81% of the remaining performance obligations as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively, with the remainder recognized thereafter.

The Group determines that acquisition cost paid for financial institution partners based on the amount of loans facilitated represents costs to obtain a contract qualifying for capitalization since these payments are directly related to sales achieved during a period. Such cost was not material during the periods presented.

Revenue recognized for year ended December 31, 2019, from performance obligations satisfied (or partially satisfied) in prior periods pertaining to adjustments to variable consideration due to the change of estimated prepayment rate and service fee allocation rate was immaterial, and for years ended December 31, 2020 and 2021 and six months ended June 30, 2021 and 2022 were RMB73,394, RMB210,818, RMB39,946 (unaudited) and RMB219,680, respectively.

The Group is subject to value-added tax and other surcharges including education surtax and urban maintenance and construction tax, on the services provided in the PRC. The Group has made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by the governmental authority. Such taxes excluded from revenues are RMB547,344, RMB795,388, RMB995,060, RMB457,537 (unaudited) and RMB503,295, respectively, for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022.

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Allowance for credit losses

On January 1, 2020, the Group adopted ASC 326, Financial Instruments – Credit Losses, which requires recognition of allowances upon origination 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).

The Group’s financial assets subject to the CECL model mainly include: loans receivable, accounts receivable, contract assets and financial assets receivable, and the allowance for these financial assets is driven by estimated default rate of underlying loans. The Group does not assign internal risk ratings to loans facilitated as they are of small balance and homogeneous. The Group estimates the default rate of loans on a pool basis by taking into consideration the historical delinquency rate by vintage, adjusted by specific risks for loans within each vintage, correlated industrial and macro-economic factors, and other pertinent information such as CPI and delinquent loan collection rate in assessing future performance of the loan portfolio. The Group monitors the delinquency status by vintage of origination and write off delinquent loans timely when the loans become uncollectible.

The adoption of CECL model does not change the 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 (recorded as “amounts due 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 (recorded as “amounts due from related parties”) and security deposit paid to insurance companies, which are of short term and shows no historical default record. The Group determines no allowance is needed for these receivables, except for receivables from related party financial institution partners, which are based on the estimated default rate of underlying loans as discussed above.

The adoption of ASC 326 also requires the Group to record financial guarantee on a gross basis. As such, the Group 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). The allowance is an estimate of future net-payout by the Group upon borrowers’ default, which is ultimately based on the same estimated default rate of loans facilitated as discussed above.

Cash and cash equivalents

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

Restricted cash

Restricted cash represents:

- (i) Deposit to funding banks which is used to secure timely loan repayment. As of December 31, 2019, 2020, 2021 and June 30, 2022, the amount of restricted cash related to deposit to the funding banks is RMB1,373,623, RMB2,006,874, RMB1,986,512 and RMB2,344,124, respectively.
- (ii) Cash held by the trusts and ABS plans through segregated bank accounts which can only be used to invest in loans or other securities as stipulated in the trust agreement and ABS plan. Substantially all trusts have a maximum operating period of two years. The cash in the trusts is not available to fund the general liquidity needs of the Group.

Security deposit prepaid to third-party guarantee companies

Security deposit prepaid to third-party guarantee companies mainly represents deposit prepaid to licensed third-party vendors the Group cooperates with to provide guarantee to secure timely loan repayment for financial institution partners.

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Funds receivable from third party payment service providers

The Group opened accounts with third party online payment service providers to collect and transfer the loan funds and interest to financial institution partners or borrowers. The Group also uses such accounts to collect the transaction fee and service fee, and repay and collect the default loan principal and interest. The balance of funds receivable from third party payment service providers mainly includes:

- (a) Funds provided by Fuzhou Microcredit but not yet transferred to the borrowers by third party payment service providers due to the settlement time lag;
- (b) Repayment of loan principal and interest amounts received from the borrowers but not yet transferred to the investors by third party payment service providers due to the settlement time lag; and,
- (c) Accumulated amounts of transaction fee, service fee received, payment and collection of default loan and interest at the balance sheet date.

Fair value

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying values of financial instruments, which consist of cash and cash equivalents, restricted cash, security deposits, accounts receivable and contract assets, financial assets receivable, funds receivable from third party payment service providers, loans receivable, short-term loan, payable to investors of the consolidated trusts, and amounts due from/to related parties are recorded at cost which approximates their fair value due to the short-term nature of these instruments.

As of June 30, 2022, the Group's long-term financial instruments that are not reported at fair value on balance sheet include loans receivable, payable to investors of the consolidated trusts, accounts receivable and contract assets, financial assets receivable, and accounts receivable, contract assets and financial assets receivable from related parties (recorded as "amounts due from related parties"). Fair values of these financial instruments are estimated using a discounted cash flow model based on contractual cash flows. The fair values of loans receivable, accounts receivable and contract assets, financial assets receivable are classified as Level 3 fair value measurement due to the significant unobservable inputs concerning the estimation of default rate. The fair value of payable to investors of the consolidated trusts is classified as Level 2 fair value measurement.

As of June 30, 2022, the differences between fair values and carrying amount for loans receivable and payable to investors are due to the discount factor or interests in future periods, and the fair value approximates the carrying amount. For accounts receivable and contract assets, financial assets receivable, the differences are due to the discount factor solely and the fair value approximates the carrying amount.

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The Group does not have any assets or liabilities that are recorded at fair value subsequent to initial recognition on a recurring basis. Fair value measurement on a nonrecurring basis for the six months ended June 30, 2022 included that used in impairment of an equity-method investment which was classified as a Level 3 fair value measurement.

Loans receivable

Loans receivable represents loans facilitated through the Consolidated Trusts and Fuzhou Microcredit. Loans receivable are recorded as receivable, reduced by a valuation allowance estimated as of the balance sheet date.

The allowance for loan losses is determined at a level believed to be reasonable to absorb probable losses inherent in the portfolio as of each balance sheet date. The allowance is provided based on an assessment performed on a portfolio basis. All loans are assessed collectively depending on factors such as delinquency rate, size, and other risk characteristics of the portfolio. About adoption of ASC 326, see accounting policy of “Allowance for credit losses”.

The Group charges off loans receivable as a reduction to the allowance for loans receivable when the loan principal and interest are deemed to be uncollectible. In general, loans receivable is identified as uncollectible when it is determined to be not probable that the balance can be collected.

Property and equipment, net

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Over the shorter of the lease term or expected useful lives
Electronic equipment	5 years
Furniture and office equipment	5 years

Gains and losses from the disposal of furniture and equipment are recognized in the consolidated statements of operations.

Depreciation expense on property and equipment for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022 were RMB6,837, RMB10,439, RMB13,483, RMB5,944 (unaudited) and RMB7,580, respectively.

Land use rights, net

Land use rights represent lease prepayments to the local government authorities and are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the term of the agreement, which is 50 years. Under ASC 842, land use rights were identified as operating lease right-of-use assets, which is separately disclosed as “Land use rights, net” in the Group’s consolidated balance sheets.

Guarantee liabilities

For the loans facilitated through the loan facilitation business, the Group provides a guarantee service to its financial institution partners whereas in the event of default, the financial institution partners are entitled to receive unpaid interest and principal from the Group. 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 the Circular 141 which came into effect in December 2017, the Group began to involve third-party licensed vendors including financing guarantee companies and insurance companies to provide guarantee for new loans facilitated for certain financial institution partners. Under the cooperation with financing guarantee companies, these guarantee companies initially reimburses the loan principal and interest to the financial institution partners upon borrower’s default. Although the Group does not have direct contractual obligation to the financial institution partners for defaulted principal and interest, the Group provides back to back guarantee to the licensed guarantee companies. As agreed in the back to back guarantee contract, the Group would pay the licensed guarantee companies for actual losses incurred based on defaulted principal and interest. Under the cooperation with insurance companies, the Group is obligated to provide funding

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in the form of security deposit with the insurance companies which is used to compensate the financial institution partners for borrowers’ default. Given that the Group effectively takes on all of the credit risk of the borrowers, the Group recognizes 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, the Group does not take any credit risk and 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 six months ended June 30, 2021 (unaudited) and 2022.

At the inception of each loan, the Group recognizes 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 the Group is 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 the Group is released from the stand ready liability upon expiration of the underlying loan, the Group records a corresponding amount as “Revenue from releasing of guarantee liabilities “in the consolidated statement of operations. 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 liability, 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 operations. 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, the Group adopted ASC 326, Financial Instruments – Credit Losses, which requires gross accounting for guarantee liability. As a result, at inception of the guarantee, the Group 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 Current expected credit loss (“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 the Group 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. Upon adoption, the Group recognized the cumulative effect of approximately RMB1.43 billion as a decrease to the opening balances of retained earnings, as of January 1, 2020, net of tax effect.

The following table sets forth the cumulative effect of the changes on the Group’s consolidated balance sheet as of January 1, 2020 due to the adoption of ASC 326:

	As of December 31, 2019	Adjustments due to the Adoption of ASC 326	As of January 01, 2020
ASSETS			
Financial assets receivable	1,971,824	117,321	2,089,145
Deferred tax assets	697,348	336,830	1,034,178
LIABILITIES			
Guarantee liabilities-stand ready	2,212,125	(63,723)	2,148,402
Guarantee liabilities-contingent	734,730	1,952,545	2,687,275
Other tax payable	263,856	(4,275)	259,581
SHAREHOLDERS’ EQUITY			
Retained earnings	2,071,332	(1,430,396)	640,936

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Financial assets receivable

Financial assets receivable is recognized at loan inception which is equal to the stand-ready liability recorded at fair value in accordance with ASC 460-10-30-2(b) and considers what premium would be required by the Group 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 the expected net payouts by incorporating a markup margin. The Group estimates its 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 fee payment from the borrowers. At each reporting date, the Group estimates 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 statements of operations. About adoption of ASC 326, see accounting policy of "Allowance for credit losses". Impairment losses of RMB150,940, RMB285,720, RMB243,139, RMB102,769 (unaudited) and RMB163,875, were recorded in the consolidated statements of operations during the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Facilitation, origination and servicing expenses

Facilitation, origination and servicing expense represents cost of services which consists primarily of variable expenses and vendor costs, and costs related to risk management, credit assessment, borrower and system support, payment processing services and third-party collection agencies with facilitating and servicing loans.

Facilitation and origination expense includes expense related to the Group's borrower referral program under which the Group provides cash incentives to existing borrowers who have successfully referred a new borrower/borrowers to the Group. Such cash reward is offered when the new borrower makes a drawdown. As the cash reward is directly associated with the new borrower acquisition, the Group accounted for it as origination expense to facilitate the loans. The Group recorded RMB14.7 million, RMB13.1 million, RMB23.9 million, RMB9.5 million (unaudited) and RMB12.0 million of cash reward for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Sales and marketing expenses

Sales and marketing expenses primarily consist of variable marketing and promotional expenses and general brand and awareness building, including fees paid to channel partners for directing user traffic to the Group. Salaries and benefits expenses related to the Group's sales and marketing personnel and other expenses related to the Group's sales and marketing team are also included in the sales and marketing expenses. For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, the advertising and marketing related expenses were RMB2,725,812, RMB859,386, RMB1,803,243, RMB706,679 (unaudited) and RMB1,031,406, respectively.

Funding costs

Funding cost consists of interest expense the Group pays to financial institution partners of the Consolidated Trusts and the asset backed securities, trust issuance and costs incurred by the trusts.

Government grant

Government grants are primarily referred to the amounts received from various levels of local governments from time to time which are granted for general corporate purposes and to support its ongoing operations in the region. The grants are determined at the discretion of the relevant government authority and there are no restrictions on their use. The government subsidies are recorded as other income in the period the cash is received. The government grants received by the Group is RMB128,147, RMB74,449, RMB17,783, RMB5,067 (unaudited) and RMB194,439 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

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.

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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, the management 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, the Group applies 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. The Group recognizes interest and penalties, if any, under accrued expenses and other current liabilities on its consolidated balance sheets and under other expenses in its consolidated statement of operations. The Group did not have any significant unrecognized uncertain tax positions as of and for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022.

Value added taxes ("VAT")

The Consolidated Trusts are subject to VAT at the rate of 3%, while the other entities under the Group are subject to VAT at the rate of 6% as general taxpayers, and related surcharges on revenue generated from providing services. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in the line item of other tax payable on the consolidated balance sheets.

Certain risks and concentrations

As of December 31, 2019, 2020, 2021 and June 30, 2022, substantially all of the Group's cash and cash equivalents as well as restricted cash were held in major financial institutions located in the PRC, which management considers to be of high credit quality.

For the year ended December 31, 2019 and 2020, financial institution partner A and B funded loans which generated greater than 10% of the total revenues. For the year ended December 31, 2021, financial institution partner C and D funded loans which generated greater than 10% of the total revenues.

For the six months ended June 30, 2021, financial institution partner C and D funded loans which generated greater than 10% (unaudited) of the total revenues. For the six months ended June 30, 2022, financial institution partner C funded loans which generated greater than 10% of the total revenues.

Share-based compensation

Share-based payment transactions with employees, such as stock options and restricted share units are measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis in the consolidated statements of operations over the period during which the employee is required to perform service in exchange for the award. The Group has elected to account for forfeitures as they occur.

Foreign currency translation

The reporting currency of the Group is the Renminbi ("RMB"). The Group's operations are principally conducted through the companies located in the PRC where the RMB is the functional currency. The functional currency of the other major entities incorporated outside of PRC is the United States dollar ("USD").

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in currencies other than functional currency are translated into functional currency at the exchange rates prevailing at the balance sheet date. Transactions in currencies other than functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing on the transaction date. Transaction gains and losses are included in earnings as foreign exchange gains (loss).

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The Historical Financial Information of the Group are translated from the functional currency into reporting currency. Assets and liabilities denominated in foreign currencies are translated using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated at the appropriate historical rates. Revenues, expenses, gains and losses are translated using the periodic average exchange rates. The resulting foreign currency translation adjustment are recorded in other comprehensive income (loss).

Convenience translation

The Group's business is primarily conducted in China and all of the revenues are denominated in RMB. The financial statements of the Group are stated in RMB. Translations of balances in the consolidated balance sheets, and the related consolidated statements of operations, changes in equity and cash flows from RMB into US dollars as of and for the six months ended June 30, 2022 are solely for the convenience of the readers and were calculated at the rate of USD1.00=RMB6.6981, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on June 30, 2022. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into USD at that rate or at any other rate.

Employee defined contribution plan

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on a certain percentage of the employee's salaries. The Group has no legal obligation for the benefits beyond the contributions, and the Group cannot utilize the contributed amount for future obligations if employee left the Group. The total amount that was expensed as incurred was RMB71,433, RMB72,632, RMB146,426, RMB62,914 (unaudited) and RMB85,868 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

Income per share

Basic income per ordinary share is computed by dividing net income attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period assuming the ordinary shares were issued and outstanding from the earliest period presented.

Diluted income per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation in income periods should their effects be anti-dilutive. The Group had restricted share units and share options, which could potentially dilute basic earnings per share in the future.

Dividends

Dividends of the Company are recognized when declared.

Segment reporting

The Group uses management approach to determine operation segment. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker ("CODM") for making decisions, allocation of resource and assessing performance.

The Group's CODM has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group. The Group operates and manages its business as a single operating segment.

Substantially all of the Group's long-lived assets are located in the PRC and substantially all of the Group's revenues are derived from within the PRC. Therefore, no geographical segments are presented.

Operating leases

The Group accounts for operating leases in accordance with ASC 842, Leases ("ASC 842") after the adoption on January 1, 2019. The Group determines if a contract contains a lease based on whether it has the right to obtain substantially all of the economic benefits from the use of an identified asset and whether it has the right to direct the use of an identified asset in exchange for consideration, which relates to an asset the Group does not own. As part

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of the lease agreements, the Group may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise those options. Right of use ("ROU") assets represent the Group's right to use an underlying asset for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. ROU assets are initially measured based on the lease liability, adjusted for any initial direct costs, any lease payments made prior to lease commencement and for any lease incentives, and are included in other assets (long term) on the Group's consolidated balance sheets. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date, and are included in accrued expenses and other current liabilities (short term) and other long-term liabilities on the Group's consolidated balance sheets. The discount rate used to determine the present value of the future lease payments is the Group's incremental borrowing rate, because the interest rate implicit in most of the Group's leases is not readily determinable. The Group's incremental borrowing rate represents the rate would be incurred to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. Operating lease expense is recorded on a straight-line basis over the lease term. The Company does not possess any leases that have variable lease payments or residual value guarantees.

Recent accounting pronouncements

For the year ended December 31, 2019, the Group's total operating revenue exceeded US\$1.35 billion. Therefore, the Group no longer qualified as an emerging growth company as of December 31, 2019, pursuant to the Jumpstart Our Business Startups Act of 2012. In 2019, the Group has adopted all applicable accounting standards which have been effective for public companies for the year beginning on January 1, 2019.

Recently Adopted Accounting Guidance

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which has subsequently been amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11 and ASU 2020-03. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of the Group's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2019, including final periods within those fiscal years. For all other public business entities, the guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early application of the pending content that links to this paragraph is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Group has adopted the new standard effective January 1, 2020, using the modified retrospective transition method. Please refer to "Allowance for credit losses".

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. The ASU eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and valuation processes for Level 3 fair value measurements. The ASU adds new disclosure requirements for Level 3 measurements. The Group has adopted this new standard effective on January 1, 2020. The adoption of this new standard did not have a material impact on the Group's Historical Financial Information.

In December 2019, the FASB issued ASU 2019-12, a new accounting standard update to simplify the accounting for income taxes. The new guidance removes certain exceptions for recognizing deferred taxes for investments, performing intra period allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The Group has adopted this new standard effective on January 1, 2021. The adoption of this new standard did not have a material impact on the Group's Historical Financial Information.

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Recent Accounting Guidance Not Yet Adopted

No new accounting pronouncements issued but not yet adopted are expected to have a material impact on the Company's Historical Financial Information.

3. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS, NET

The Group's accounts receivable as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
As of December 31, 2019			
Accounts receivable from loan facilitation service	2,371,709	(184,425)	2,187,284
Accounts receivable from post facilitation service	24,092	(273)	23,819
Total	2,395,801	(184,698)	2,211,103
As of December 31, 2020			
Accounts receivable from loan facilitation service	151,004	(17,462)	133,542
Accounts receivable from post facilitation service	21,170	(3,958)	17,212
Accounts receivable from referral services	12,180	(1,836)	10,344
Total	184,354	(23,256)	161,098
As of December 31, 2021			
Accounts receivable from loan facilitation service	502	(375)	127
Accounts receivable from post facilitation service	5,825	(1,683)	4,142
Accounts receivable from referral services	10,797	–	10,797
Total	17,124	(2,058)	15,066
As of June 30, 2022			
Accounts receivable from referral services	25,080	–	25,080
Total	25,080	–	25,080

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The movement of allowance for uncollectible accounts receivables for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022, are as follows:

	Opening balance as of January 1, 2019	Current year net provision	Write off in the current year	Ending balance as of December 31, 2019
Accounts receivable from loan facilitation service	77,152	171,602	(64,329)	184,425
Accounts receivable from post facilitation service	4,184	12,779	(16,690)	273
Total	81,336	184,381	(81,019)	184,698
	Opening balance as of January 1, 2020	Current year net provision	Write off in the current year	Ending balance as of December 31, 2020
Accounts receivable from loan facilitation service	184,425	(102,832)	(64,131)	17,462
Accounts receivable from post facilitation service	273	33,241	(29,556)	3,958
Accounts receivable from referral services	–	1,836	–	1,836
Total	184,698	(67,755)	(93,687)	23,256
	Opening balance as of January 1, 2021	Current year net provision	Write off in the current year	Ending balance as of December 31, 2021
Accounts receivable from loan facilitation service	17,462	(11,309)	(5,778)	375
Accounts receivable from post facilitation service	3,958	1,732	(4,007)	1,683
Accounts receivable from referral services	1,836	–	(1,836)	–
Total	23,256	(9,577)	(11,621)	2,058
	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of June 30, 2022
Accounts receivable from loan facilitation service	375	–	(375)	–
Accounts receivable from post facilitation service	1,683	–	(1,683)	–
Total	2,058	–	(2,058)	–

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The Group's contract assets as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

As of December 31, 2019	Contract assets	Allowance for Uncollectible Contract assets	Contract assets, net
Contract assets from loan facilitation service	143,685	(6,662)	137,023
Contract assets from post facilitation service	3,977	(231)	3,746
Total	147,662	(6,893)	140,769
As of December 31, 2020	Contract assets	Allowance for Uncollectible Contract assets	Contract assets, net
Contract assets from loan facilitation service	2,714,861	(222,526)	2,492,335
Contract assets from post facilitation service	29,259	(10,045)	19,214
Contract assets from referral services	29,818	–	29,818
Total	2,773,938	(232,571)	2,541,367
As of December 31, 2021	Contract assets	Allowance for Uncollectible Contract assets	Contract assets, net
Contract assets from loan facilitation service	3,097,872	(287,397)	2,810,475
Contract assets from post facilitation service	282,767	(26,457)	256,310
Contract assets from referral services	238,877	–	238,877
Total	3,619,516	(313,854)	3,305,662
As of June 30, 2022	Contract assets	Allowance for Uncollectible Contract assets	Contract assets, net
Contract assets from loan facilitation service	3,276,001	(299,395)	2,976,606
Contract assets from post facilitation service	463,530	(25,318)	438,212
Contract assets from referral services	351,395	–	351,395
Total	4,090,926	(324,713)	3,766,213

The movement of allowance for uncollectible contract assets for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022, are as follows:

	Opening balance as of January 1, 2019	Current year net provision	Write off in the current year	Ending balance as of December 31, 2019
Contract assets from loan facilitation service	758	8,895	(2,991)	6,662
Contract assets from post facilitation service	421	1,728	(1,918)	231
Total	1,179	10,623	(4,909)	6,893

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	Opening balance as of January 1, 2020	Current year net provision	Write off in the current year	Ending balance as of December 31, 2020
Contract assets from loan facilitation service	6,662	220,582	(4,718)	222,526
Contract assets from post facilitation service	231	11,217	(1,403)	10,045
Total	6,893	231,799	(6,121)	232,571

	Opening balance as of January 1, 2021	Current year net provision	Write off in the current year	Ending balance as of December 31, 2021
Contract assets from loan facilitation service	222,526	157,708	(92,837)	287,397
Contract assets from post facilitation service	10,045	52,379	(35,967)	26,457
Total	232,571	210,087	(128,804)	313,854

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of June 30, 2022
Contract assets from loan facilitation service	287,397	77,952	(65,954)	299,395
Contract assets from post facilitation service	26,457	25,673	(26,812)	25,318
Total	313,854	103,625	(92,766)	324,713

The Group's accounts receivable and contract assets generated from related parties and recorded in amounts due from related parties as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

As of December 31, 2019	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
Accounts receivable from loan facilitation service	131,743	(9,648)	122,095
Accounts receivable from post facilitation service	1,950	(481)	1,469
Contract assets from loan facilitation service	47,028	(2,062)	44,966
Contract assets from post facilitation service	795	(144)	651
Total	181,516	(12,335)	169,181

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	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
As of December 31, 2020			
Accounts receivable from referral services	1,004	–	1,004
Contract assets from loan facilitation service	82,528	(8,072)	74,456
Contract assets from post facilitation service	951	(227)	724
Total	84,483	(8,299)	76,184
As of December 31, 2021			
Contract assets from loan facilitation service	953,846	(120,208)	833,638
Contract assets from post facilitation service	5,178	(1,809)	3,369
Total	959,024	(122,017)	837,007
As of June 30, 2022			
Contract assets from loan facilitation service	592,384	(118,719)	473,665
Contract assets from post facilitation service	15,762	(6,457)	9,305
Contract assets from referral services	54,116	–	54,116
Total	662,262	(125,176)	537,086

The movement of allowance for uncollectible accounts receivables and contract assets generated from related parties and recorded in amounts due from related parties for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Opening balance as of January 1, 2019	Current year net provision	Write off in the current year	Ending balance as of December 31, 2019
Accounts receivable from loan facilitation service	9,437	18,698	(18,487)	9,648
Accounts receivable from post facilitation service	1,515	6,947	(7,981)	481
Contract assets from loan facilitation service	219	7,680	(5,837)	2,062
Contract assets from post facilitation service	18	1,951	(1,825)	144
Total	11,189	35,276	(34,130)	12,335

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	Opening balance as of January 1, 2020	Current year net provision	Write off in the current year	Ending balance as of December 31, 2020
Accounts receivable from loan facilitation service	9,648	30,215	(39,863)	–
Accounts receivable from post facilitation service	481	14,533	(15,014)	–
Contract assets from loan facilitation service	2,062	22,683	(16,673)	8,072
Contract assets from post facilitation service	144	7,639	(7,556)	227
Total	12,335	75,070	(79,106)	8,299

	Opening balance as of January 1, 2021	Current year net provision	Write off in the current year	Ending balance as of December 31, 2021
Contract assets from loan facilitation service	8,072	117,613	(5,477)	120,208
Contract assets from post facilitation service	227	6,482	(4,900)	1,809
Total	8,299	124,095	(10,377)	122,017

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of June 30, 2022
Contract assets from loan facilitation service	120,208	5,594	(7,083)	118,719
Contract assets from post facilitation service	1,809	7,806	(3,158)	6,457
Total	122,017	13,400	(10,241)	125,176

The year/period end balances primarily consisted of receivables and contract assets associated with loans originated in the current year/period. The past-due balance of the Group's accounts receivable as of December 31, 2020, 2021 and June 30, 2022 is immaterial.

The year/period end balances primarily consisted of receivables associated with loans facilitated in the current year/period. The principal of accounts receivable and contract assets as of December 31, 2020 from loans facilitated in 2019 is immaterial.

As of December 31, 2021, the principal of accounts receivable and contract assets by year of origination:

	2021	2020	Total
As of December 31, 2021			
Loan facilitation service	2,708,137	390,236	3,098,373
Post facilitation service	249,726	38,867	288,593
Referral Service	249,674	–	249,674
Total	3,207,537	429,103	3,636,640

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As of June 30, 2022, the principal of accounts receivable and contract assets by year of origination:

	2022	2021	2020	Total
As of June 30, 2022				
Loan facilitation service	2,447,427	742,111	86,463	3,276,001
Post facilitation service	433,153	15,378	14,999	463,530
Referral Service	376,475	–	–	376,475
Total	<u>3,257,055</u>	<u>757,489</u>	<u>87,959</u>	<u>4,116,006</u>

4. FINANCIAL ASSETS RECEIVABLE, NET

The Group's financial assets receivable as of December 31, 2019, 2020, 2021 and June 30, 2022, are as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Financial assets receivable	2,142,627	4,601,642	4,897,854	4,821,201
Allowance for uncollectible receivables	(170,803)	(390,834)	(493,646)	(519,563)
Financial assets receivable, net	<u>1,971,824</u>	<u>4,210,808</u>	<u>4,404,208</u>	<u>4,301,638</u>

The movement of financial assets receivable for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Balance at beginning of year/period	1,250,277	2,142,627	4,601,642	4,897,854
Adoption of ASC 326	–	117,321	–	–
Addition in the current year/period	3,650,311	6,885,976	6,626,322	3,012,766
Collection in the current year/period	(2,721,168)	(4,478,593)	(6,189,783)	(2,951,461)
Write-off	(36,793)	(65,689)	(140,327)	(137,958)
Balance at end of year/period	<u>2,142,627</u>	<u>4,601,642</u>	<u>4,897,854</u>	<u>4,821,201</u>

The movement of allowance for uncollectible receivables for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Balance at beginning of year/period	56,656	170,803	390,834	493,646
Current year/period net provision	150,940	285,720	243,139	163,875
Write-off	(36,793)	(65,689)	(140,327)	(137,958)
Balance at end of year/period	<u>170,803</u>	<u>390,834</u>	<u>493,646</u>	<u>519,563</u>

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The Group's financial assets receivable generated from related parties and recorded in amounts due from related parties as of December 31, 2019, 2020, 2021 and June 30, 2022 are as follows:

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Financial assets receivable	130,765	3,149	–	5,802
Allowance for uncollectible receivables	(13,633)	(2,033)	–	(340)
Financial assets receivable, net	117,132	1,116	–	5,462

The movement of financial assets receivable generated from related parties and recorded in amounts due from related parties for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Balance at beginning of year/period	125,936	130,765	3,149	–
Addition in the current year/period	329,164	35,151	–	6,112
Collection in the current year/period	(316,926)	(124,830)	(309)	(308)
Write-off	(7,409)	(37,937)	(2,840)	(2)
Balance at end of year/period	130,765	3,149	–	5,802

The movement of allowance for uncollectible receivables generated from related parties and recorded in amounts due from related parties for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 are as follows:

	Year ended December 31,			Six months ended
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Balance at beginning of year/period	5,806	13,633	2,033	–
Current year/period net provision	15,236	26,337	807	342
Write-off	(7,409)	(37,937)	(2,840)	(2)
Balance at end of year/period	13,633	2,033	–	340

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The following table summarizes the past-due status on the Group's financial assets receivable as of December 31, 2020, 2021 and June 30, 2022:

	0-30 days past due	31-60 days past due	Current	Total financial assets receivable
December 31, 2020	15,673	9,572	4,576,397	4,601,642
December 31, 2021	15,594	12,038	4,870,222	4,897,854
June 30, 2022	32,536	34,257	4,754,408	4,821,201

The year/period end balances primarily consisted of receivables associated with loans facilitated in the current year/period. The principal of financial assets receivable as of December 31, 2020 from loans facilitated in 2019 is immaterial.

As of December 31, 2021, the principal of financial assets receivable by year of origination:

	2021	2020	Total
As of December 31, 2021	4,078,249	819,605	4,897,854

As of June 30, 2022, the principal of financial assets receivable by year of origination:

	2022	2021	2020	Total
As of June 30, 2022	2,390,103	2,095,971	335,127	4,821,201

5. LOANS RECEIVABLE, NET

Loans receivable consists of the following:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Loans receivable	9,591,204	8,010,081	13,652,723	15,844,979
Less allowance for loan losses	(351,639)	(421,767)	(948,893)	(1,336,642)
Loans receivable, net	<u>9,239,565</u>	<u>7,588,314</u>	<u>12,703,830</u>	<u>14,508,337</u>

As of December 31, 2019, 2020, 2021 and June 30, 2022, the accrued interest receivables are RMB42,770, RMB87,278, RMB86,144, and RMB113,658 (net of allowance RMB2,252, RMB3,200, RMB5,987 and RMB9,588, respectively), which is recorded under loans receivable.

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The following table presents the past-due status on loans as of December 31, 2019, 2020, 2021 and June 30, 2022:

	0-30 days past due	31-60 days past due	Total amount past due	Current	Total loans
December 31, 2019	90,420	55,992	146,412	9,444,792	9,591,204
December 31, 2020	43,766	32,038	75,804	7,934,277	8,010,081
December 31, 2021	113,771	87,171	200,942	13,451,781	13,652,723
June 30, 2022	134,692	102,233	236,925	15,608,054	15,844,979

The Group has not recorded any financing income on an accrual basis for the loans that are past due for more than 60 days for the six months ended June 30, 2022 (60 days in 2021, 2020 and 2019). Loans are returned to accrual status if they are brought to non-delinquent status or have performed in accordance with the contractual terms for a reasonable period of time and, in the Group's judgment, will continue to make periodic principal and interest payments as scheduled. For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, the Group has charged off loans receivable of RMB162 million, RMB637 million, RMB475 million, RMB156 million (unaudited) and RMB536 million, respectively.

Movement of allowance for loan losses is as follows:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Balance at beginning of year/period	25,895	351,639	421,767	948,893
Provision for loan losses	486,991	698,701	965,419	907,317
Gross write-off	(161,976)	(636,766)	(475,352)	(535,743)
Recoveries	729	8,193	37,059	16,175
Balance at end of year/period	351,639	421,767	948,893	1,336,642

The principal of loans receivable as of December 31, 2020 by year of origination is as follows:

	2020	2019	Total loans
Loans receivable	7,987,657	22,424	8,010,081

The principal of loans receivable as of December 31, 2021 by year of origination is as follows:

	2021	2020	Total loans
Loans receivable	13,614,369	38,354	13,652,723

The principal of loans receivable as of June 30, 2022 by year of origination is as follows:

	2022	2021	2020	Total loans
Loans receivable	11,436,797	4,391,267	16,915	15,844,979

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6. LAND USE RIGHTS, NET

Land use rights represent acquired right to use the parcel of land on which the Group’s regional headquarters and affiliated industrial park stand. In 2021, the Group acquired the land use rights in Shanghai from the local authorities. Amortization of the land use right is made over the remaining term of the land use right period from the date when the land was made available for use by the Group. The land use rights are summarized as follows:

	As of December 31, 2021 RMB	As of June 30, 2022 RMB
Cost	1,036,178	1,036,178
Accumulated amortization	(17,270)	(27,630)
Land use rights, net	1,018,908	1,008,548

The total amortization expense for the year ended December 31, 2021 and six months ended June 30, 2021 and 2022 amounted to RMB17,270, RMB6,908 (unaudited) and RMB10,360, respectively.

7. SHORT-TERM LOANS

Short-term loans as of December 31, 2019 represents bank borrowings of RMB200,000 obtained from domestic commercial banks. The short-term loan of RMB100,000 bears interest rates of one year Loan Prime Rate (“LPR”) plus 1.45%, RMB35,000 applying a fixed rate of 5.95%, and RMB65,000 applying a fixed rate of 5.45%.

Short-term loans as of December 31, 2020 represents bank borrowings of USD12,500 and RMB105,238 obtained from domestic commercial banks. The short-term loan of USD12,500 bears interest rates of Hong Kong InterBank Offered Rate (“HIBOR”) plus 300bps. The loan of RMB105,238 applying a fixed rate of 4.05%.

Short-term loans as of December 31, 2021 represents bank borrowings of USD38,850 and RMB150,000 obtained from domestic commercial banks, and the latter loan is guaranteed by Shanghai Qibutianxia Co., Ltd. The short-term loan of USD38,850 bears interest rates of London InterBank Offered Rate (“LIBOR”) plus 300bps for the year ended December 31, 2021. The loan of RMB150,000 applying a fixed rate of 4.05%.

Short-term loans as of June 30, 2022 includes newly raised bank borrowings of USD 30,000 obtained from domestic commercial banks during the six months ended June 30, 2022. The short-term loan of USD30,000 bears interest rates of London InterBank Offered Rate (“LIBOR”) plus 330bps for the six months ended June 30, 2022.

The weighted average interest rate for the outstanding borrowings as of December 31, 2019, 2020, 2021 and June 30, 2022 was 5.64%, 3.65%, 3.46% and 4.70%, respectively. There is one financial covenant stipulating that the Company shall not make dividend distribution before the loans, interest and other payable due under the contract are paid.

In June 2022, 360 Changfeng signed a mortgage loan agreement of RMB1 billion with tenure of 25 years. The interest rate is based on market price quote for loans with tenure of more than five years minus 136bps. The loan is guaranteed by the land use rights owned by 360 Changfeng and is for the specific use of construction of the regional headquarters and the affiliated industrial park. As of June 30, 2022, the unused amount of the mortgage loan is RMB1 billion. The mortgage loan agreement requires the subsidiary’s registered capital to be paid in the same proportion of the total facility used. Subsequently in September, the registered capital of the subsidiary has been fully paid.

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8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
User traffic direction fees	217,932	201,041	472,269	472,101
Payable for third-party service fee	145,834	196,718	298,411	341,097
Payable to financial institution partners (1)	212,279	163,234	422,423	347,313
Payable to shareholder of non-controlling interests (2)	–	–	296,617	303,407
Dividend payable (3)	–	–	276,991	230,095
Accrued payroll and welfare	92,502	144,784	409,216	317,612
Lease liability	21,020	28,528	25,779	37,535
Others	31,351	75,456	56,623	68,197
Total	720,918	809,761	2,258,329	2,117,357

- (1) Payable to financial institution partners mainly include amounts collected from the borrowers but have not been transferred to the financial institution partners due to settlement time lag.
- (2) Payable to shareholder of non-controlling interests mainly includes loans from Shanghai Changfeng Investment (Group) Co., Ltd. (“Changfeng”) to acquire land use right, the principal of RMB90,000 of which is repaid in September, 2022.
- (3) Dividends payable as of December 31, 2021 has been paid in January 2022 and May 2022 respectively. Dividends payable as of June 30, 2022 has been paid in July, 2022

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9. GUARANTEE LIABILITIES

The movement of guarantee liabilities for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022 is as follows:

Guarantee liabilities-stand ready

	<i>RMB</i>
As of January 1, 2019	1,399,174
Provision at the inception of new loans	3,979,475
Net payout (<i>I</i>)	(2,881,118)
Release on expiration	(285,406)
	<hr/>
As of December 31, 2019	2,212,125
	<hr/> <hr/>
Adoption of ASC 326	(63,723)
As of January 1, 2020	2,148,402
Provision at the inception of new loans	6,921,127
Released into revenue	(4,896,032)
	<hr/>
As of December 31, 2020	4,173,497
	<hr/> <hr/>
As of January 1, 2021	4,173,497
Provision at the inception of new loans	6,626,322
Released into revenue	(5,981,675)
	<hr/>
As of December 31, 2021	4,818,144
	<hr/> <hr/>
As of January 1, 2022	4,818,144
Provision at the inception of new loans	3,018,878
Released into revenue	(3,298,059)
	<hr/>
As of June 30, 2022	4,538,963
	<hr/> <hr/>

Guarantee liabilities-contingent

	<i>RMB</i>
As of January 1, 2019	–
Expense on guarantee liabilities	734,730
	<hr/>
As of December 31, 2019	734,730
	<hr/> <hr/>
Adoption of ASC 326	1,952,545
As of January 1, 2020	2,687,275
Provision for contingent liabilities	4,794,127
Net payout (<i>I</i>)	(3,937,948)
	<hr/>
As of December 31, 2020	3,543,454
	<hr/> <hr/>

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As of January 1, 2021	3,543,454
Provision for contingent liabilities	3,078,224
Net payout (1)	<u>(3,336,597)</u>
As of December 31, 2021	<u>3,285,081</u>
As of January 1, 2022	3,285,081
Provision for contingent liabilities	2,162,638
Net payout (1)	<u>(2,127,305)</u>
As of June 30, 2022	<u>3,320,414</u>

(1) Net payout represents the amount paid upon borrowers’ default net of subsequent recoveries from the borrowers during a given period.

The following table summarizes the past-due status on the Group’s contractual amounts of the outstanding loans subject to guarantee:

	0-30 days past due	31-60 days past due	61-90 days past due	Over 90 days past due	Current	Total loans
December 31, 2020	355,252	158,048	68,919	–	55,019,645	55,601,864
December 31, 2021	446,780	235,769	57,526	–	49,117,630	49,857,705
June 30, 2022	456,773	228,107	32,970	–	49,904,061	50,621,911

As of December 31, 2019, 2020, 2021 and June 30, 2022, the contractual amounts of the outstanding loans subject to guarantee by the Group is estimated to be RMB47,189,538, RMB55,601,864, RMB49,857,705 and RMB50,621,911, respectively. The approximate term of guarantee compensation service ranged from 1 month to 12 months, 1 month to 24 months, 1 month to 36 months and 1 month to 36 months, as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, the contractual amounts of the outstanding loans (excluding loans that are written off) that have been compensated by the Group were RMB2,237,563, RMB2,402,825, RMB3,129,264 and RMB3,769,627, respectively.

10. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group, with which the Group entered into transactions during the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022:

Name of related parties	Relationship with the group
360 Security Technology Inc. (“360 Group”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qifutong Technology Co., Ltd. (“Qifutong”)	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Shanghai Qibutianxia Information Technology Co., Ltd. (“Qibutianxia”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qicaitianxia Technology Co., Ltd. (“Qicaitianxia”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qihu Technology Co., Ltd. (“Qihu”)	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group

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Name of related parties	Relationship with the group
Jinshang Consumer Finance Co.,Ltd. (“Jinshang”)	An affiliate of an entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Zixuan Information Technology Co., Ltd. (“Beijing Zixuan”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Xixian New Area Financial Asset Exchange Co., Ltd. (“Xixian”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qifei Xiangyi Consultation Co., Ltd. (“Beijing Qifei”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Hangzhou Qifei Huachuang Technology Co, Ltd. (“Hangzhou Qifei”)	Investee of the Group
Shanghai Jiehu Internet Technology Co., Ltd. (“Shanghai Jiehu”)	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Kincheng Bank of Tianjin Co., Ltd. (“Kincheng Bank”)	An affiliate of an entity controlled by Mr. Zhou, the Chairman of the Group
Tianjin Yujie Technology Co., Ltd. (Yujie)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Hongying Information Technology Co., Ltd. (“Hongying”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Shareholders	Shareholders of the Group
Others	Entities controlled by Mr. Zhou, the Chairman of the Group

The Group entered into the following transactions with its related parties:

For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, services provided by the related parties were RMB129,061, RMB143,881, RMB523,054, RMB178,078 (unaudited) and RMB318,246, respectively.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				<i>(unaudited)</i>	
Bandwidth service fee charged by Qihu	46,191	80,514	108,743	51,696	62,882
Brand fees charged by Qihu	–	–	23,585	–	23,584
Referral service fee charged by Qihu	47,640	24,507	19,789	12,273	880
Referral service fee charged by Yujie	–	15,152	347,585	101,715	221,380
Corporate expenses allocated from Qibutianxia	3,230	11,321	7,075	5,660	–
Rental expenses charged by Beijing Qifei	5,074	7,137	–	–	–
Rental expenses charged by Hongying	–	–	11,899	5,696	7,340
Labor cost charged by Xixian	10,657	2,130	–	–	–
Referral service fee charged by Qifutong	7,905	–	–	–	–
Others	8,364	3,120	4,378	1,038	2,180
Total	129,061	143,881	523,054	178,078	318,246

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For the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, services provided to the related parties were RMB1,037,480, RMB346,378, RMB2,178,561, RMB1,050,036 (unaudited) and RMB787,157, respectively.

	Year ended December 31,			Six months ended June 30,	
	2019 RMB	2020 RMB	2021 RMB	2021 RMB (unaudited)	2022 RMB
Referral service fee charged from Qicaitianxia	197,018	3,558	–	–	–
Referral service fee charged from Kincheng Bank	–	–	–	–	108,757
Loan facilitation services fee charged from Jinshang	59,871	150,515	219,513	89,582	62,967
Loan facilitation services fee charged from Beijing Zixuan	517,776	47,516	37	37	–
Loan facilitation services fee charged from Kincheng Bank	–	15,254	1,574,456	852,625	289,961
Post-origination services fee charged from Jinshang	43,497	48,094	69,398	32,644	36,043
Post-origination services fee charged from Beijing Zixuan	215,019	74,417	56	56	–
Post-origination services fee charged from Kincheng Bank	–	433	297,489	62,042	268,747
Others	4,299	6,591	17,612	13,050	20,682
Total	1,037,480	346,378	2,178,561	1,050,036	787,157

Beijing Zixuan is the subsidiary of Qibutianxia which is ultimately controlled by Mr. Zhou. Beijing Zixuan runs a P2P platform, referring individual investors as the financial institutional partner to the Group’s platform. Jinshang is an affiliate of an entity controlled by Mr. Zhou and provides funds to the borrowers through the Group’s platform. Kincheng Bank is an affiliate of an entity controlled by Mr. Zhou and provides funds to the borrowers through the Group’s platform. The Group collected service fees from Beijing Zixuan, Jinshang and Kincheng Bank. The amounts from Beijing Zixuan, Jinshang and Kincheng Bank represent the loan facilitation service and post-facilitation service fees charged from them.

The Company has held bank deposit with Kincheng Bank of Tianjin Co., Ltd (“Kincheng”) which amounted to RMB320,491 and RMB2,519,337 as December 31, 2021 and June 30, 2022. The related interest income was RMB29,312, RMB8,561 (unaudited) and RMB31,996 for the year ended December 31, 2021, six months ended June 30, 2021 and 2022, respectively and interest receivable as of December 31, 2021 and June 30, 2022 was RMB79 and RMB21,913 respectively.

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As of December 31, 2019, 2020, 2021 and June 30, 2022, amounts due from related parties were RMB478,767, RMB193,305, RMB978,175 and RMB788,522, respectively, and details are as follows:

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Trade related				
Jinshang	50,666	158,655	194,123	200,965
Kincheng Bank	–	13,505	771,335	572,272
Beijing Zixuan	404,416	5,608	–	–
Others	3,226	4,437	2,559	5,127
Non-trade related				
Shareholders (1)	20,459	11,100	10,158	10,158
Total	478,767	193,305	978,175	788,522

(1) The balance represents the ADS registration fees incurred on behalf of certain shareholders that are to be reimbursed from them.

As of December 31, 2019, 2020, 2021 and June 30, 2022, amounts due to related parties were RMB55,622, RMB71,562, RMB214,057 and RMB178,687, respectively, and details are as follows:

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Trade related				
Qibutianxia	186	12,000	7,500	–
Qihu	39,836	24,624	144,999	127,688
Yujie	–	16,061	30,165	13,200
Others	7,626	10,507	19,556	25,962
Non-trade related				
Qibutianxia	1,656	1,656	1,656	1,656
Others	6,318	6,714	10,181	10,181
Total	55,622	71,562	214,057	178,687

Qibutianxia provided joint back to back guarantee to certain third party guarantee companies for the loans facilitated by the Group. The amounts of loans under such arrangement are RMB22,831,912, RMB19,346,618, RMB11,803,492 and RMB7,115,977 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively.

In September, 2020, Beijing Qifei transferred to the Group part of its interest in Hangzhou Qifei, a joint venture company established by Beijing Qifei and an independent third party. After the transfer, Beijing Qifei and the Group hold 26% and 25% of the equity interest in the investee, respectively. As part of the arrangement, the Group is responsible to assist Hangzhou Qifei in meeting certain performance targets. The Group accounted for the equity investment using alternative measurement, and the carrying amount was nil since no capital contribution has been made as of December 31, 2021. The Company made investment of RMB8,996 to Hangzhou Qifei during the six months ended June 30, 2022, and the investment was fully impaired at the same period after considering the business forecast of the investee and the fair value of this equity investment. Thus, the carrying amount of Hangzhou Qifei is nil as of June 30, 2022. The Company is not obligated to fund its remaining unpaid share of registered capital of RMB41,004 till June 30, 2028 and given the uncertainty with regards to the financial position of the investee, the probability of future contribution and the exact amount cannot be estimated, thus no additional liabilities are accrued as of June 30, 2022.

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In October 2020, the Group established a company, Shanghai 360 Changfeng Technology, Co., Ltd. (“360 Changfeng”) in Shanghai, China through Qiyu together with Shanghai Jiehu and an independent third party, Changfeng, to develop and build regional headquarter and the affiliated industrial park in Shanghai. Changfeng, Shanghai Jiehu and the Group each holds 30%, 30% and 40% of the equity interests of the 360 Changfeng, respectively. The shareholders execute their voting rights based on their equity interest and the stakeholders’ meeting will pass the resolutions with the approval of stakeholders representing more than half of the voting rights.

In December 2021, the Group acquired the 30% equity interest held by Shanghai Jiehu and became the controlling shareholder of 360 Changfeng. The transaction is a business acquisition under common control as both Shanghai Jiehu and the Group is ultimately controlled by Mr. Zhou, and has been retrospectively reflected in the Historical Financial Information of the Company for all periods presented. The impact to prior year financials was inconsequential.

Pursuant to the agreement, the shareholders is obligated to contribute initial funding for acquisition of land use rights and funds required for subsequent developments will be mainly financed by external financings with any remaining shortfall funded by the shareholders ratably in proportion to their respective equity interest ownership.

As of December 31, 2020, no capital contribution was made and carrying amount of the investment was zero. As of December 31, 2021 and June 30, 2022, shareholders of the company have invested a total of RMB1.0 billion, of which RMB0.3 billion was funded by the Changfeng.

11. INCOME TAXES

PRC

Under the Law of the People’s Republic of China on Enterprise Income Tax (“EIT Law”), domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%. Qiyu received its “high and new technology enterprises” status in 2018 and renewed it in 2021 and was entitled for a preferential income tax rate of 15% from 2018 to 2023. In November 2020, Qiyue received its “high and new technology enterprises” status and was entitled to a reduced EIT rate of 15% from 2020 to 2022. From August 2019, Qicheng benefits from a preferential tax rate of 15% as it falls within the encouraged industries catalogue in western China. The 40% of the EIT payables of Qicheng could be further reduced as it is located in Autonomous Region of China. From 2021, two of the Company’s subsidiaries benefit from a preferential tax rate of 15% as they are registered in Hainan and engaged in encouraged business activities. From 2022, Beihai Borui Credit Service Co., Ltd., benefits from a preferential tax rate of 15% as it falls within the encouraged industries catalogue in western China.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, the Cayman Islands do not impose withholding tax on dividend payments.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Company’s subsidiaries domiciled in Hong Kong has introduced a two-tiered profits tax rate regime which is applicable to any year of assessment commencing on or after April 1, 2018. The profits tax rate for the first HK\$2 million of profits of corporations will be lowered to 8.25%, while profits above that amount will continue to be subject to the tax rate of 16.5%. Additionally, payments of dividends by the subsidiary incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

The current and deferred portion of income tax expenses included in the consolidated statements of operations, which were all attributable to the Group is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB	RMB	RMB	RMB	RMB
				(unaudited)	
Current tax	1,179,089	1,355,651	1,053,979	639,412	573,083
Deferred tax	(713,106)	(769,615)	204,217	23,945	(176,351)
Total	465,983	586,036	1,258,196	663,357	396,732

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Reconciliation between the income tax at PRC statutory tax rate and income tax expense is as follows:

	Year ended December 31,		
	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Income before income tax benefit	2,967,287	4,081,745	7,022,709
Statutory tax rate in the PRC	25%	25%	25%
Income tax at statutory tax rate	741,822	1,020,436	1,755,677
Effect of different tax rate of subsidiary operation in other jurisdiction	3,875	3,728	11,708
Effect of non-deductible expenses	63,070	75,881	64,841
Effect of preferential tax rate and tax exemption	(202,095)	(452,033)	(487,655)
Effect of enacted tax rate change of deferred tax assets/liabilities	(95,048)	248	1,125
Effect of research and development super-deduction	(47,846)	(69,802)	(106,515)
Effect of valuation allowance movement of deferred tax assets	2,205	7,578	19,015
	<u>2,205</u>	<u>7,578</u>	<u>19,015</u>
Income tax expense	<u>465,983</u>	<u>586,036</u>	<u>1,258,196</u>

The effect of the preferential tax rates on the income per share is as follows:

	Years ended December 31,		
	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Amounts in Thousands Except Per Share Data)		
Tax saving amount due to preferential tax rates	297,143	451,785	486,530
Income per share effect-basic	1.03	1.51	1.58
Income per share effect-diluted	0.99	1.47	1.51

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets and deferred tax liabilities are as follows:

	As of December 31,		
	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Deferred tax assets:			
Guarantee liabilities	1,182,114	1,628,214	1,263,699
Advertising expenses	290,720	–	–
Provision for financial assets receivable, accounts receivable and contract assets	236,252	34,889	34,889
Provision for loan losses	84,452	186,462	330,684
Depreciation of land use rights	–	–	14,162
Net operating loss carry forwards	12,951	22,785	37,376
Gross deferred tax assets	1,806,489	1,872,350	1,680,810
Valuation allowance on deferred tax assets	(2,205)	(9,783)	(28,798)
Total deferred tax assets	1,804,284	1,862,567	1,652,012
Deferred tax liabilities:			
Uncollected revenues	(1,106,936)	(501,848)	(938,721)
Total deferred tax liabilities	(1,106,936)	(501,848)	(938,721)
Net deferred tax assets	<u>697,348</u>	<u>1,360,719</u>	<u>713,291</u>

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Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, the Company's experience with tax attributes expiring unused and tax planning alternatives. Considering all the above factors, as of December 31, 2019, 2020, 2021 and June 30, 2022, the Group recorded an allowance of RMB2,205, RMB9,783, RMB28,798 and RMB42,591 respectively for deferred tax assets which are not more likely than not to be realized.

As of June 30, 2022, the Group had net operating loss carryforwards in PRC entities of RMB281,462, which will expire from 2023 to 2027.

The authoritative guidance requires that the Group recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. Under PRC laws and regulations, arrangements and transactions among related parties may be subject to examination by the PRC tax authorities. If the PRC tax authorities determine that the contractual arrangements among related companies do not represent a price under normal commercial terms, they may make adjustments to the companies' income and expenses. A transfer pricing adjustment could result in additional tax liabilities.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

Aggregate undistributed earnings of the Group's PRC subsidiaries and VIE and VIEs' subsidiaries that are available for distribution was RMB4,264,093, RMB5,964,686, RMB13,225,574 and RMB15,509,955 as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs") earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Company has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely. The Group plans to indefinitely reinvest undistributed profits earned from its China subsidiaries in its operations in the PRC. Therefore, no withholding income taxes for undistributed profits of the Group's subsidiaries have been provided as of December 31, 2019, 2020, 2021 and June 30, 2022.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Group completed its feasibility analysis on a method, which the Group will ultimately execute if necessary to repatriate the undistributed earnings of the VIE without significant tax costs. As such, the Group does not accrue deferred tax liabilities on the earnings of the VIE given that the Group will ultimately use the means.

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Group estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the guidance on accounting for income taxes in an interim period. As the year progresses, the Group refines the estimates of the year's taxable income as new information becomes available. This continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Group adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year to-date provision reflects the expected annual tax rate.

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The Group's effective tax rate for the six months ended June 30, 2021 and 2022 was 18.0% (unaudited) and 15.0%, respectively.

The Group did not incur any interest and penalties related to potential underpaid income tax expenses.

12. SHARE-BASED COMPENSATION

Share incentive plan

In May 2018, the shareholders and board of directors of the Company adopted the Share Incentive Plan (the "2018 plan") for the granting of share options and restricted share units to employees, directors and consultants to reward them for services to the Company and to provide incentives for future service. Under the 2018 plan, the maximum aggregate number of shares which may be issued is 25,336,096 ordinary shares, plus an annual increase equal to 1.0% of the total number of the then issued and outstanding shares. The share options expire 10 years from the date of grant.

The Company's board of directors and shareholders approved the 2019 Share Incentive Plan (the "2019 Plan") and amended it in August 2020, for the granting of share options and restricted share units to employees, directors and consultants to reward them for services to the Company and to provide incentives for future service. Under the 2019 plan, the maximum aggregate number of shares which may be issued is 17,547,567 ordinary shares, and may increase annually by an amount up to 1.0% of the total number of ordinary shares then issued and outstanding commencing with the first fiscal year beginning January 1, 2021 or such fewer amount as determined by the board of directors. The share options expire 10 years from the date of grant.

Stock options

On May 20 and November 20, 2018, and May 20, 2020 and November 20, 2021, the Company granted 24,627,493, 690,023, 3,514 and 2,400 stock options, respectively, with an exercises price of US\$0.00001 per share to certain employees, directors and officers. The stock options shall vest over a period from immediate to 4 years. The grant date fair value per option was RMB48.64, RMB60.77, RMB32.02 and RMB64.46, respectively.

On November 2021, the compensation committee of the board of directors of the Company approved to convert the form of 10,264,366 outstanding restricted share units into stock options to purchase the same number of shares as represented by the restricted share units with an exercises price of US\$0.00001 per share. This conversion did not affect the fair value of the awards immediately before and after the modification as the exercise price is nominal. In addition, there were no other changes to the awards including the vesting conditions and classification. Accordingly, modification accounting is not required and the cost will continue to be recognized based on the grant-date fair-value-based measure.

The Company mainly used the binomial model to estimate the fair value of the options granted on the respective grant dates with assistance from an independent valuation firm. The fair value of options approximates the fair value of underlying ordinary shares as the exercise price is nominal.

The fair value per option was estimated at the date of grant using the following assumptions:

	Year ended, December 31, 2018 RMB
Risk-free rate of interest	3.18%
Estimated volatility rate	51.32%-53.49%
Dividend yield	0.00%
Expected life (years)	5.00
Exercise price	USD0.00001

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The risk-free rate of interest is based on the yield of US Treasury Strip Bond as of the valuation date. The expected volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. The fair value of ordinary share underlying the options has been determined by considering a number of objective and subjective factors such as operating and financial performance, round of financing investment, discount for lack of marketability and general and industry specific economic outlook, amongst other factors.

A summary of option activity during period from January 1, 2019 to June 30, 2022 is as follows:

	Number of Options	Weighted Average Exercise Price <i>USD</i>	Weighted Average Remaining Contract Life <i>Years</i>	Aggregate Intrinsic Value <i>RMB</i>
Options outstanding at January 1, 2019	25,244,577	0.00001	7.89	1,346,041
Options forfeited in 2019	(1,741,363)	0.00001	6.79	–
Options exercised in 2019	(5,470,244)	0.00001	6.87	(186,043)
Options outstanding at December 31, 2019	<u>18,032,970</u>	<u>0.00001</u>	<u>6.91</u>	<u>613,301</u>
Options exercisable at December 31, 2019	<u>8,411,583</u>	<u>0.00001</u>	<u>6.69</u>	<u>286,078</u>
Options vested or expected to be vested at December 31, 2019	<u><u>18,032,970</u></u>	<u><u>0.00001</u></u>	<u><u>6.91</u></u>	<u><u>613,301</u></u>
	Number of Options	Weighted Average Exercise Price <i>USD</i>	Weighted Average Remaining Contract Life <i>Years</i>	Aggregate Intrinsic Value <i>RMB</i>
Options outstanding at January 1, 2020	18,032,970	0.00001	6.91	613,301
Options granted in 2020	3,514	0.00001	8.79	135
Options forfeited in 2020	(145,759)	0.00001	5.83	–
Options exercised in 2020	(10,279,338)	0.00001	5.75	(395,343)
Options outstanding at December 31, 2020	<u>7,611,387</u>	<u>0.00001</u>	<u>6.20</u>	<u>292,734</u>
Options exercisable at December 31, 2020	<u>3,639,244</u>	<u>0.00001</u>	<u>5.99</u>	<u>139,965</u>
Options vested or expected to be vested at December 31, 2020	<u><u>7,611,387</u></u>	<u><u>0.00001</u></u>	<u><u>6.20</u></u>	<u><u>292,734</u></u>

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	Number of Options	Weighted Average Exercise Price <i>USD</i>	Weighted Average Remaining Contract Life <i>Years</i>	Aggregate Intrinsic Value <i>RMB</i>
Options outstanding at January 1, 2021	7,611,387	0.00001	6.20	292,734
Options granted in 2021	2,400	0.00001	9.64	175
Options converted in 2021	10,264,366	0.00001	8.89	749,915
Options forfeited in 2021	(348,236)	0.00001	5.84	(25,442)
Options exercised in 2021	(4,584,580)	0.00001	4.94	(334,949)
Options outstanding at December 31, 2021	<u>12,945,337</u>	<u>0.00001</u>	<u>8.03</u>	<u>945,786</u>
Options exercisable at December 31, 2021	<u>4,051,903</u>	<u>0.00001</u>	<u>7.01</u>	<u>296,032</u>
Options vested or expected to be vested at December 31, 2021	<u><u>12,945,337</u></u>	<u><u>0.00001</u></u>	<u><u>8.03</u></u>	<u><u>945,786</u></u>
	Number of Options	Weighted Average Exercise Price <i>USD</i>	Weighted Average Remaining Contract Life <i>Years</i>	Aggregate Intrinsic Value <i>RMB</i>
Options outstanding at January 1, 2022	12,945,337	0.00001	8.03	945,786
Options forfeited in 2022	(755,190)	0.00001	7.75	(43,756)
Options exercised in 2022	(1,584,034)	0.00001	6.03	(91,779)
Options outstanding at June 30, 2022	<u>10,606,113</u>	<u>0.00001</u>	<u>7.75</u>	<u>614,518</u>
Options exercisable at June 30, 2022	<u>3,002,620</u>	<u>0.00001</u>	<u>6.65</u>	<u>173,972</u>
Options vested or expected to be vested at June 30, 2022	<u><u>10,606,113</u></u>	<u><u>0.00001</u></u>	<u><u>7.75</u></u>	<u><u>614,518</u></u>

As of June 30, 2022, there was RMB211,281 of unrecognized compensation cost related to share options that are expected to be recognized over a weighted-average vesting period of 1.22 years.

Restricted Share Units

A summary of the restricted share units for the year ended December 31, 2019 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2019	–	–
Granted	2,003,301	36.18
Forfeited	(438,627)	50.12
Vested	(297,849)	41.16
Outstanding at December 31, 2019	<u><u>1,266,825</u></u>	<u><u>30.18</u></u>

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A summary of the restricted share units for the year ended December 31, 2020 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2020	1,266,825	30.18
Granted	15,959,139	40.31
Forfeited	(150,502)	30.63
Vested	(753,642)	30.43
	<u>16,321,820</u>	<u>40.07</u>
Outstanding at December 31, 2020	<u>16,321,820</u>	<u>40.07</u>

A summary of the restricted share units for the year ended December 31, 2021 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2021	16,321,820	40.07
Granted	3,102,418	68.45
Converted	(10,264,366)	40.84
Forfeited	(749,794)	38.39
Vested	(1,448,632)	37.06
	<u>6,961,446</u>	<u>52.38</u>
Outstanding at December 31, 2021	<u>6,961,446</u>	<u>52.38</u>

A summary of the restricted share units for the six months ended June 30, 2022 was stated below:

	Number of Restricted Share Units	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2022	6,961,446	52.38
Granted	258,500	43.43
Forfeited	(260,238)	65.41
Vested	(388,702)	66.59
	<u>6,571,006</u>	<u>50.52</u>
Outstanding at June 30, 2022	<u>6,571,006</u>	<u>50.52</u>

The restricted share units granted shall vest in accordance with contractual schedules over a period from three to five years. The fair value of the restricted share units was determined by the closing sales price of the shares on the grant date, adjusted by the present value of expected dividends to be paid during the vesting period. The total fair value of the restricted share units vested for the six months ended June 30, 2022 was RMB25,885. As of June 30, 2022, there was RMB253,248 of unrecognized compensation cost related to restricted share units that are expected to be recognized over a weighted-average vesting period of 1.37 years.

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The Company recognizes the compensation costs on a straight-line basis over the requisite service period of the award, which is generally the vesting period. Total share-based compensation expense of share-based awards granted to employees and directors was as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB	RMB	RMB	RMB	RMB
	<i>(unaudited)</i>				
Facilitation, origination and servicing expenses	55,601	72,192	75,209	30,893	34,704
Sales and marketing expenses	6,805	8,164	12,340	5,565	525
General and administrative expenses	188,022	220,805	166,373	90,372	63,604
Total	250,428	301,161	253,922	126,830	98,833

13. ORDINARY SHARES

5,000,000,000 shares was authorized at par value of USD0.00001 per share. The ordinary shares include Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to twenty votes on all matters that are subject to shareholder vote. All classes of ordinary shares are entitled to the same dividend right. Class B ordinary shares could be converted into Class A ordinary shares, at the option of the holders, on one-for-one basis. All Class B ordinary shares are beneficially owned by Mr. Zhou, the Chairman of the Company.

As of December 31, 2019, there were 293,420,800 ordinary shares outstanding, par value \$0.00001 per share, consisting of 253,600,214 Class A ordinary shares and 39,820,586 Class B ordinary shares. As of December 31, 2020, there were 304,453,780 ordinary shares outstanding, with par value of \$0.00001 per share, consisting of 264,633,194 Class A ordinary shares and 39,820,586 Class B ordinary shares. As of December 31, 2021, there were 310,486,975 ordinary shares outstanding, with par value of \$0.00001 per share, consisting of 270,666,389 Class A ordinary shares and 39,820,586 Class B ordinary shares. As of June 30, 2022, there were 312,459,711 ordinary shares outstanding, with par value of \$0.00001 per share, consisting of 272,639,125 Class A ordinary shares and 39,820,586 Class B ordinary shares.

14. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the PRC entities of the Group are required to make appropriation to certain statutory reserves, namely general reserve, industry specific reserve, enterprise expansion reserve, and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in their PRC statutory accounts. The PRC entities of the Group are required to appropriate at least 10% of their after-tax profits to the general reserve until such reserve has reached 50% of their respective registered capital.

Appropriations to the enterprise expansion reserve and the staff welfare and bonus reserve are to be made at the discretion of the board of directors of the PRC entities of the Group. There are no appropriations to these reserves by the PRC entities of the Group for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 (unaudited) and 2022.

As a result of PRC laws and regulations and the requirement that distributions by the PRC entities of the Group can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities of the Group restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, capital reserve and statutory reserves of the PRC entities of the Group. As of December 31, 2019, 2020, 2021 and June 30, 2022, the aggregated amounts of paid-in capital, capital reserve and statutory reserves represented the amount of net assets of the relevant entity in the Group not available for distribution amounted to RMB2,615,880, RMB2,740,408, RMB8,283,560 and RMB14,536,140, respectively (including the statutory reserve fund of RMB14,880, RMB125,389, RMB168,541 and RMB218,082, as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively).

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15. DIVIDENDS

Quarterly Dividend Policy

On November 15, 2021, the board of directors of the Company approved a quarterly cash dividend policy. Under the policy, the Company 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 the Company's net income after tax for such quarter. The determination to make dividend distributions and the exact amount of such distributions in any particular quarter will be based upon the Company's operations and financial conditions, and other relevant factors, and subject to adjustment and determination by the board of directors.

The board of directors of the Company has approved a dividend of US\$0.14 per ordinary share, or US\$0.28 per ADS, for the third fiscal quarter of 2021 in accordance with the Company's dividend policy, which is paid on January 18, 2022 to shareholders of record as of the close of business on December 15, 2021.

The board of directors of the Company has approved a dividend of US\$0.13 per ordinary share, or US\$0.26 per ADS, for the fourth fiscal quarter of 2021 in accordance with the Company's dividend policy, which was paid on May 13, 2022 to shareholders of record as of the close of business on April 6, 2022.

The board of directors of the Company has approved and declared a dividend of US\$0.11 per ordinary share, or US\$0.22 per ADS, for the first fiscal quarter of 2022 in accordance with the Company's dividend policy on May 26, 2022, which was paid on July 27, 2022 to shareholders of record as of the close of business on June 20, 2022.

16. LEASE

Operating lease as lessee

The Group enters into operating leases primarily for general office space. The Group's leases typically have original terms not exceeding 5 years. These leases have remaining lease terms of 1 year to 3 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

Lease costs are included in facilitation, origination and servicing expense, sales and marketing expense, and general and administrative expenses. Operating lease expenses were RMB20,139, RMB28,999, RMB51,608, RMB23,752 (unaudited) and RMB32,064 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively, included amortization expenses of land use rights of nil, nil, RMB17,270, RMB6,908 (unaudited) and RMB10,362 for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. Under ASC 842, land use rights agreements are also considered as operating lease contracts. See Note 6 for separate disclosures related to land use right.

Supplemental cash flow information related to leases was as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				<i>(unaudited)</i>	
Cash paid for amounts included in the measurement of lease liabilities:					
Operating cash flows from operating leases	22,896	30,536	33,252	16,844	21,565
Right-of-use assets obtained in exchange for lease obligations:					
Operating leases	29,667	36,236	25,349	9,871	55,845

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The following table shows ROU assets and lease liabilities as of December 31, 2019, 2020, 2021 and June 30, 2022 (except lease term and discount rate):

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Right-of-use assets	55,362	48,990	42,606	76,030
Operating lease liabilities-current	21,020	28,528	25,779	37,535
Operating lease liabilities-non current	31,184	14,974	13,177	34,147
	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Weighted-average remaining lease term	2.27	1.69	2.09	2.29
Weighted-average discount rate	9.88%	6.16%	6.22%	4.75%

The maturities of operating lease liabilities as of December 31, 2019, 2020, 2021 and June 30, 2022 are as follows:

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB	RMB	RMB	2022
				RMB
Within one year	26,157	32,255	28,203	38,326
Within a period of more than one years but not more than two years	26,260	13,582	7,034	25,146
Within a period of more than two years but not more than three years	5,177	710	3,550	11,785
Within a period of more than three years but not more than four years	269	–	382	–
Total undiscounted lease payments	57,863	46,547	39,169	75,257
Imputed interest	(5,659)	(3,045)	(213)	(3,575)
Total lease liabilities	52,204	43,502	38,956	71,682
Less: Amount due for settlement with 12 months shown under current liabilities	(21,020)	(28,528)	(25,779)	(37,535)
Amount due for settlement after 12 months shown under non-current liabilities	31,184	14,974	13,177	34,147

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17. COMMITMENTS AND CONTINGENCIES

Contingencies

Historically the Group has provided guarantees to certain financial institution partners through a subsidiary that does not hold a financing guarantee license. In October 2019, the China Banking and Insurance Regulatory Commission ("CBIRC") and other government authorities, promulgated a new regulation pursuant to which this structure, may not be deemed appropriate. The Group has ceased the business in 2020, and for existing loans, the Group will execute the contract until the expiration of the loans. The new regulation is silent with respect to any grace period that may be permitted to undertake the restructuring. Management has concluded, with the advice of the Group's legal counsel, that it is not reasonably possible to estimate any potential financial exposure the Group may have as a result of operating the business during this intermediate time period, due to the substantial uncertainties regarding the interpretation and application of the relevant laws and regulations. As of June 30, 2022, the outstanding loan balance under this guarantee model amounted to RMB0.06 billion, constituting 0.04% of total outstanding loan balance facilitated by the Group (excluding loans delinquent for more than 180 days).

In July 2020 and in February 2021, CBIRC promulgated two regulations stating that regional banks that carry out internet lending business shall mainly serve local customers, and are not allowed to conduct the internet lending business beyond the local administrative area of their registered place, except those who have no physical business branch, conducting business primarily online as well as meeting the other conditions prescribed by the CBIRC. The Company has changed its distribution strategy so that only local borrowers would be matched to regional banks for new loans facilitated starting from January 1, 2022. The Company believed that, as advised by the Group's legal counsel, given the lack of exact definition regarding the regional banks in the existing laws and regulations, there are uncertainties as to how the regulation will be implemented, therefore the impact to the Company's current business operations cannot be reasonably estimated.

In September, 2021, the People's Bank of China ("PBOC") issued a new regulation stating that organizations that engage in credit investigation business should obtain the credit reporting business license and comply with its other provisions within an 18-month grace period from its effectiveness date of January 1, 2022. Given that the rule does not specify the legitimacy of existing data analytics or precision marketing service providers in the financial service industry, the Company has concluded, as advised by its legal counsel, that it is not reasonably possible to estimate its impact on the Company's current business operations for credit assessment on borrowers and the potential penalties incurred by the Company thereof.

The Company and its certain current and former officers and directors are named as defendants in a putative securities class action brought by investors who purchased the Company's securities between April 30, 2020 and July 8, 2021 and who allegedly suffered damages as a result of alleged misstatements and omissions in the Company's public disclosure documents in connection with its compliance and data collection practices. On January 14, 2022, Lead Plaintiff filed an Amended Complaint. On March 15, 2022, the Company filed a motion to dismiss the Amended Complaint. On September 26, 2022, Lead Plaintiff notified the Court that he does not intend to file a Second Amended Complaint. The Court entered a judgement in favor of defendants on September 29, 2022. Plaintiff has until October 31, 2022 to appeal the judgement. As the Plaintiff has not appealed till such date, the judgement is final and the Company had no losses over this case.

Commitments

As of June 30, 2022, the Group has certain capital commitments that primarily related to commitments for construction of the regional headquarters and the affiliated industrial park. The total capital commitments contracted but not yet reflected in the Historical Financial Information was not less than RMB500 million (US\$74.6 million) as of June 30, 2022. All of these capital commitments will be fulfilled in the future according to the construction progress.

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18. NET INCOME PER SHARE

Basic and diluted net income per share for each of the periods presented were calculated as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				<i>(unaudited)</i>	
Numerator:					
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	2,895,087	2,159,337
Denominator:					
Weighted average Class A and Class B ordinary shares outstanding used in computing basic income per ordinary share	288,827,604	298,222,207	307,265,600	305,886,883	311,109,257
Plus: incremental weighted average ordinary shares from assumed exercise of stock options and restricted share units using the treasury stock method	12,110,866	8,442,892	14,132,153	15,071,309	9,141,937
Weighted average Class A and Class B ordinary shares outstanding used in computing diluted income per ordinary share	300,938,470	306,665,099	321,397,753	320,958,192	320,251,194
Basic net income per share	<u>8.66</u>	<u>11.72</u>	<u>18.82</u>	<u>9.46</u>	<u>6.94</u>
Diluted net income per share	<u><u>8.31</u></u>	<u><u>11.40</u></u>	<u><u>17.99</u></u>	<u><u>9.02</u></u>	<u><u>6.74</u></u>

For the years ended December 31, 2019, 2020, 2021 and six months ended June 31, 2021 and 2022, no options or restricted share units were excluded from the calculation of diluted net income per share due to the anti-dilutive effect.

19. SUBSEQUENT EVENTS

On August 18, 2022, the board of directors of the Company has approved a dividend of US\$0.09 per ordinary share, or US\$0.18 per ADS, for the second fiscal quarter of 2022 in accordance with the Company's dividend policy, which is expected to be paid on October 28, 2022 to shareholders of record as of the close of business on September 16, 2022.

[On November 11, 2022, the board of directors of the Company has approved a dividend of US\$0.08 per ordinary share, or US\$0.16 per ADS, for the third fiscal quarter of 2022 in accordance with the Company's dividend policy, which is expected to be paid on January 18, 2023 to shareholders of record as of the close of business on December 12, 2022.]

20. SUBSEQUENT FINANCIAL STATEMENTS

[No audited consolidated financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2022 and up to the date of this report.]

360 DIGITECH, INC.

ADDITIONAL INFORMATION – FINANCIAL STATEMENT SCHEDULE I

The following Schedule I has been provided pursuant to the requirements of Rules 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented as the restricted net assets of the Company's PRC subsidiaries and VIEs which may not be transferred to the Company in the forms of loans, advances or cash dividends without the consent of PRC government authorities as of December 31, 2021, was more than 25% of the Company's consolidated net assets as of December 31, 2021.

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CONDENSED BALANCE SHEETS

(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("USD"))

	As of December 31,			2021 USD (Note 2)
	2019 RMB	2020 RMB	2021 RMB	
ASSETS				
Cash and cash equivalents	6,905	19,560	7,117	1,117
Amount due from related parties	–	–	10,134	1,590
Amount due from subsidiaries and VIEs	1,659,444	1,632,772	1,711,633	268,593
Investments in subsidiaries and VIEs	5,566,790	7,940,533	14,032,928	2,202,071
TOTAL ASSETS	7,233,139	9,592,865	15,761,812	2,473,371
LIABILITIES AND EQUITY				
LIABILITIES				
Accrued expenses and other current liabilities	5,582	2,751	310,373	48,704
Amount due to subsidiaries	14,115	27,973	–	–
Short term loans	–	81,563	247,576	38,850
TOTAL LIABILITIES	19,697	112,287	557,949	87,554
EQUITY				
Ordinary shares (\$0.00001 par value per share 5,000,000,000 shares authorized, 302,707,339 shares issued and 293,420,800 shares outstanding as of December 31, 2019, 309,833,035 shares issued and 304,453,780 shares outstanding as of December 31, 2020, and 315,433,018 shares issued and 310,486,975 shares outstanding as of December 31, 2021, respectively)	20	21	22	3
Additional paid-in capital	5,117,184	5,417,406	5,672,267	890,102
Retained earnings	2,071,332	4,137,542	9,642,506	1,513,120
Other comprehensive loss	24,906	(74,391)	(110,932)	(17,408)
TOTAL EQUITY	7,213,442	9,480,578	15,203,863	2,385,817
TOTAL LIABILITIES AND EQUITY	7,233,139	9,592,865	15,761,812	2,473,371

APPENDIX IA

ACCOUNTANTS’ REPORT

CONDENSED STATEMENTS OF OPERATIONS

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”))

	Year ended December 31,			2021 USD (Note 2)
	2019 RMB	2020 RMB	2021 RMB	
Operating costs and expenses	(12,922)	(16,453)	(51,233)	(8,040)
Interest income (loss)	712	(2,349)	(5,383)	(845)
Foreign exchange losses	(491)	(376)	(133)	(21)
Other income, net	453	15,148	–	–
Net loss before taxes and income from equity in subsidiaries and VIEs	(12,248)	(4,030)	(56,749)	(8,906)
Equity in earnings of subsidiaries and VIEs	2,513,843	3,500,636	5,838,474	916,183
Net income before taxes	2,501,595	3,496,606	5,781,725	907,277
Income tax expenses	–	–	–	–
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277
Net income attributable to ordinary shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277

APPENDIX IA

ACCOUNTANTS’ REPORT

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”))

	Year ended December 31,			2021 USD (Note 2)
	2019 RMB	2020 RMB	2021 RMB	
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277
Other comprehensive income, net of tax of nil:				
Foreign currency translation adjustment	<u>21,223</u>	<u>(99,297)</u>	<u>(36,541)</u>	<u>(5,734)</u>
Other comprehensive income (loss)	<u>21,223</u>	<u>(99,297)</u>	<u>(36,541)</u>	<u>(5,734)</u>
Total comprehensive income	<u>2,522,818</u>	<u>3,397,309</u>	<u>5,745,184</u>	<u>901,543</u>
Comprehensive income attributable to ordinary shareholders	<u><u>2,522,818</u></u>	<u><u>3,397,309</u></u>	<u><u>5,745,184</u></u>	<u><u>901,543</u></u>

APPENDIX IA

ACCOUNTANTS’ REPORT

CONDENSED STATEMENTS OF CASH FLOWS

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”))

	Year ended December 31,			2021 USD (Note 2)
	2019 RMB	2020 RMB	2021 RMB	
Cash Flows from Operating Activities:				
Net income attributable to shareholders of the Company	2,501,595	3,496,606	5,781,725	907,277
Adjustments to reconcile net income to net cash used in operating activities:				
Equity in earnings of subsidiaries and VIEs	(2,513,843)	(3,500,636)	(5,838,474)	(916,183)
Changes in operating assets and liabilities				
Accrued expenses and other current liabilities	(3,070)	(2,625)	31,197	4,896
Amounts due from subsidiaries and VIEs	(276,960)	(65,801)	–	–
Net cash used in operating activities	(292,278)	(72,456)	(25,552)	(4,010)
Cash Flows from Investing Activities:				
Investments in subsidiaries	(35,652)	–	–	–
Loans payment to subsidiaries and VIEs	–	–	(153,778)	(24,131)
Net cash used in Investing Activities	(35,652)	–	(153,778)	(24,131)
Cash Flows from Financing Activities:				
Payment of [REDACTED] costs	(3,080)	–	–	–
Proceeds from short-term loans	–	86,305	169,291	26,565
Net cash (used in) provided by financing activities	(3,080)	86,305	169,291	26,565
Effect of foreign exchange rate changes	1,761	(1,194)	(2,404)	(376)
Net (decrease) increase in cash and cash equivalents	(329,249)	12,655	(12,443)	(1,952)
Cash, cash equivalents, and restricted cash, beginning of year	336,154	6,905	19,560	3,069
Cash, cash equivalents, and restricted cash, end of year	6,905	19,560	7,117	1,117
Supplemental disclosures of cash flow information:				
Payables for dividends:	–	–	276,991	43,466

APPENDIX IA

ACCOUNTANTS' REPORT

Notes to condensed financial statements

1. The condensed financial statements of 360 DigiTech, Inc. have been prepared using the same accounting policies as set out in the Historical Financial Information except that the equity method has been used to account for investments in subsidiaries and VIEs. Such investment in subsidiaries and VIEs are presented on the balance sheets as interests in subsidiaries and VIEs and the profit of the subsidiaries and VIEs is presented as equity in earnings of subsidiaries and VIEs on the statement of operations.
2. As of December 31, 2019, 2020 and 2021, there were no material contingencies, significant provisions of long-term obligations of the Company, except for those which have been separately disclosed in the Historical Financial Information.
3. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosure certain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the accompanying Historical Financial Information.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The following is the text of a report set out on pages IB-1 to IB-2 received from the Company’s reporting accountants, [Deloitte Touche Tohmatsu], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this [REDACTED]. The information set out on pages IB-1 to IB-34 is the unaudited condensed consolidated financial statements of the Group as of and for the nine months ended September 30, 2022, and does not form part of the Accountants’ Report from the Company’s reporting accountants, [Deloitte Touche Tohmatsu], Certified Public Accountants, Hong Kong, as set out in Appendix IA to this [REDACTED], and is included herein for information purpose only.

Deloitte.

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**To the Board of Directors of 360 DigiTech, Inc.
(incorporated in Cayman Islands with limited liability)**

Introduction

We have reviewed the condensed consolidated financial statements of 360 DigiTech, Inc. (the “Company”) and its subsidiaries set out on pages IB-3 to IB-34, which comprise the condensed consolidated balance sheet as of September 30, 2022 and the related condensed consolidated statement of operations, statement of comprehensive income or loss, statement of changes in equity and statement of cash flows for the nine-month period then ended, and certain explanatory notes. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“HKSRE 2410”) issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with U.S. GAAP.

Other Matter

We draw attention to the fact that the comparative condensed consolidated statement of operations, statement of comprehensive income or loss, statement of changes in equity and statement of cash flows for the nine-month period ended September 30, 2021 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[●]

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”) except for
number of shares and per share data, or otherwise noted)**

	<i>Notes</i>	As of December 31, 2021 RMB	As of September 30, 2022 RMB	2022 USD (Note 2)
ASSETS				
Current assets:				
Cash and cash equivalents		6,116,360	7,219,700	1,014,929
Restricted cash (including RMB657,075 and RMB626,452 from the consolidated trusts as of December 31, 2021 and September 30, 2022, respectively)		2,643,587	3,009,630	423,087
Short term investments		–	30,000	4,217
Security deposit prepaid to third-party guarantee companies		874,886	549,548	77,254
Funds receivable from third party payment service providers		153,151	983,851	138,308
Accounts receivable and contract assets, net (net of allowance of RMB287,538 and RMB276,947 as of December 31, 2021 and September 30, 2022, respectively)	3	3,097,254	3,109,128	437,074
Financial assets receivable, net (net of allowance of RMB432,658 and RMB449,897 as of December 31, 2021 and September 30, 2022, respectively)	4	3,806,243	3,321,117	466,875
Amounts due from related parties (net of allowance of RMB99,962 and RMB103,840 as of December 31, 2021 and September 30, 2022, respectively)	10	837,324	518,001	72,819
Loans receivable, net (including RMB8,646,950 and RMB12,003,519 from the consolidated trusts as of December 31, 2021 and September 30, 2022, respectively)	5	9,844,481	14,002,507	1,968,441
Prepaid expenses and other assets (including RMB104,515 and RMB111,039 from the consolidated trusts as of December 31, 2021 and September 30, 2022, respectively)		383,937	534,340	75,116
Total current assets		27,757,223	33,277,822	4,678,120

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	<i>Notes</i>	As of December 31, 2021 RMB	As of September 30, 2022 RMB	2022 USD (Note 2)
Non-current assets:				
Accounts receivable and contract assets, net-noncurrent (net of allowance of RMB28,374 and RMB42,986 as of December 31, 2021 and September 30, 2022, respectively)	3	223,474	298,161	41,915
Financial assets receivable, net-noncurrent (net of allowance of RMB60,988 and RMB87,079 as of December 31, 2021 and September 30, 2022, respectively)	4	597,965	755,977	106,274
Amounts due from related parties (net of allowance of RMB22,055 and RMB5,450 as of December 31, 2021 and September 30, 2022, respectively)	10	140,851	72,245	10,156
Loans receivable, net-noncurrent (including RMB1,829,804 and RMB714,412 from the consolidated trusts as of December 31, 2021 and September 30, 2022)	5	2,859,349	3,289,501	462,431
Property and equipment, net		24,941	25,170	3,538
Land use rights, net	6	1,018,908	1,003,366	141,051
Intangible assets		4,961	4,835	680
Deferred tax assets		834,717	1,170,598	164,560
Other non-current assets		42,606	64,702	9,097
Total non-current assets		5,747,772	6,684,555	939,702
TOTAL ASSETS		33,504,995	39,962,377	5,617,822

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	<i>Notes</i>	As of December 31, 2021 RMB	As of September 30, 2022 RMB	2022 USD (Note 2)
LIABILITIES AND EQUITY				
LIABILITIES				
Liabilities including amounts of the consolidated VIEs and trusts without recourse to the Company (Note 2):				
Current liabilities:				
Payable to investors of the consolidated trusts-current		2,304,518	6,173,089	867,799
Accrued expenses and other current liabilities		2,258,329	2,267,693	318,787
Amounts due to related parties	<i>10</i>	214,057	203,324	28,583
Short term loans	<i>7</i>	397,576	639,764	89,937
Guarantee liabilities-stand ready	<i>9</i>	4,818,144	4,385,117	616,450
Guarantee liabilities-contingent	<i>9</i>	3,285,081	3,404,333	478,574
Income tax payable		624,112	683,342	96,063
Other tax payable		241,369	186,270	26,185
Total current liabilities		14,143,186	17,942,932	2,522,378
Non-current liabilities:				
Deferred tax liabilities		121,426	196,517	27,626
Payable to investors of the consolidated trusts-noncurrent		4,010,597	3,802,348	534,526
Other long-term liabilities	<i>8</i>	13,177	31,067	4,366
Total non-current liabilities		4,145,200	4,029,932	566,518
TOTAL LIABILITIES		18,288,386	21,972,864	3,088,896

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	As of December 31, 2021 RMB	As of September 30, 2022 RMB	2022 USD (Note 2)
Commitments and Contingencies (Note 14)			
SHAREHOLDERS' EQUITY			
Ordinary shares (\$0.00001 par value per share 5,000,000,000 shares authorized, 315,433,018 shares issued and 310,486,975 shares outstanding as of December 31, 2021, and 315,433,018 shares issued and 312,522,703 shares outstanding as of September 30, 2022, respectively)	22	22	3
Additional paid-in capital	5,672,267	5,820,650	818,254
Retained earnings	9,642,506	12,111,262	1,702,574
Other comprehensive loss	(110,932)	(30,662)	(4,310)
TOTAL 360 DIGITECH, INC. EQUITY	15,203,863	17,901,272	2,516,521
Non-controlling interests	12,746	88,241	12,405
TOTAL EQUITY	15,216,609	17,989,513	2,528,926
TOTAL LIABILITIES AND EQUITY	33,504,995	39,962,377	5,617,822

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”) except for
number of shares and per share data, or otherwise noted)**

	<i>Notes</i>	Nine months ended September 30,		
		2021	2022	2022
		<i>RMB</i>	<i>RMB</i>	<i>USD</i>
				<i>(Note 2)</i>
Revenue, net of value-added tax and related surcharges:	<i>11</i>			
Credit driven services		7,476,006	8,809,503	1,238,420
Loan facilitation and servicing fees-capital heavy (including revenue from related parties of RMB93 and RMB7,797 for the nine months ended September 30, 2021 and 2022, respectively)		1,846,102	1,724,628	242,444
Financing income		1,468,075	2,485,871	349,458
Revenue from releasing of guarantee liabilities		4,088,453	4,522,107	635,708
Other services fees		73,376	76,897	10,810
Platform services		4,737,574	3,837,872	539,520
Loan facilitation and servicing fees-capital light (including revenue from related parties of RMB1,689,299 and RMB859,581 for the nine months ended September 30, 2021 and 2022, respectively)		4,192,673	3,169,165	445,514
Referral services fees (including revenue from related parties of RMB6,360 and RMB109,000 for the nine months ended September 30, 2021 and 2022, respectively)		442,889	468,031	65,795
Other services fees (including revenue from related parties of RMB5,550 and RMB37,829 for the nine months ended September 30, 2021 and 2022, respectively)		102,012	200,676	28,211
Total net revenue		<u>12,213,580</u>	<u>12,647,375</u>	<u>1,777,940</u>

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	<i>Notes</i>	Nine months ended September 30,		
		2021	2022	2022
		<i>RMB</i>	<i>RMB</i>	<i>USD</i>
				<i>(Note 2)</i>
Operating costs and expenses:				
Facilitation, origination and servicing (including costs charged by related parties of RMB79,997 and RMB96,953 for the nine months ended September 30, 2021 and 2022, respectively)		1,662,927	1,787,872	251,335
Funding costs		245,995	366,105	51,466
Sales and marketing (including expenses charged by related parties of RMB252,103 and RMB335,398 for the nine months ended September 30, 2021 and 2022, respectively)		1,462,210	1,791,761	251,882
General and administrative (including expenses charged by related parties of RMB9,693 and RMB12,710 for the nine months ended September 30, 2021 and 2022, respectively)		416,777	318,869	44,826
Provision for loans receivable		742,286	1,098,859	154,475
Provision for financial assets receivable (including provision generated from related parties of RMB807 and RMB1,426 for the nine months ended September 30, 2021 and 2022, respectively)		173,661	279,361	39,272
Provision for accounts receivable and contract assets (including provision generated from related parties of RMB127,705 and RMB11,171 for the nine months ended September 30, 2021 and 2022, respectively)		286,202	170,787	24,009
Provision for contingent liabilities		1,918,899	3,305,458	464,674
Total operating costs and expenses		<u>6,908,957</u>	<u>9,119,072</u>	<u>1,281,939</u>

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

		Nine months ended September 30,		
	<i>Notes</i>	2021	2022	2022
		<i>RMB</i>	<i>RMB</i>	<i>USD</i>
				<i>(Note 2)</i>
Income from operations		5,304,623	3,528,303	496,001
Interest income, net		109,790	126,007	17,714
Foreign exchange gain (loss)		17,897	(155,241)	(21,823)
Investment gain (loss)		10,115	(8,996)	(1,265)
Other income, net		38,737	227,485	31,979
Income before income tax expense		5,481,162	3,717,558	522,606
Income tax expense	<i>12</i>	(1,021,956)	(579,891)	(81,520)
Net income		4,459,206	3,137,667	441,086
Net (income) loss attributable to non-controlling interests		(42)	14,505	2,039
Net income attributable to ordinary shareholders of the Company		<u>4,459,164</u>	<u>3,152,172</u>	<u>443,125</u>
Net income per ordinary share attributable to ordinary shareholders of 360 DigiTech, Inc.				
Basic		14.54	10.12	1.42
Diluted		13.89	9.81	1.38
Net income per ADS attributable to ordinary shareholders of 360 DigiTech, Inc. (1)				
Basic		29.08	20.24	2.84
Diluted		27.78	19.62	2.76
Weighted average shares used in calculating net income per ordinary share				
Basic		<u>306,641,972</u>	<u>311,571,575</u>	<u>311,571,575</u>
Diluted		<u>320,946,727</u>	<u>321,224,803</u>	<u>321,224,803</u>

(1) Based on ADS ratio of 1 ADS to 2 ordinary shares.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME OR LOSS**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”) except for number of shares and per share data, or otherwise noted)

	Nine months ended September 30,		
	2021	2022	2022
	<i>RMB</i>	<i>RMB</i>	<i>USD</i>
			<i>(Note 2)</i>
Net income	<u>4,459,206</u>	<u>3,137,667</u>	<u>441,086</u>
Other comprehensive (loss) income, net of tax of nil:			
Foreign currency translation adjustment	<u>(20,227)</u>	<u>80,270</u>	<u>11,284</u>
Other comprehensive income (loss)	<u>(20,227)</u>	<u>80,270</u>	<u>11,284</u>
Total comprehensive income	4,438,979	3,217,937	452,370
Comprehensive (income) loss attributable to non-controlling interests	<u>(42)</u>	<u>14,505</u>	<u>2,039</u>
Comprehensive income attributable to ordinary shareholders	<u><u>4,438,937</u></u>	<u><u>3,232,442</u></u>	<u><u>454,409</u></u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”) except for number of shares and per share data, or otherwise noted)

	Number of shares	Ordinary shares <i>RMB</i>	Additional Paid-in capital <i>RMB</i>	Retained earnings <i>RMB</i>	Other Comprehensive Income (loss) <i>RMB</i>	Non- controlling interests <i>RMB</i>	Total equity <i>RMB</i>
Balance as of January 1, 2021	304,453,780	21	5,417,406	4,137,542	(74,391)	512	9,481,090
Issuance of ordinary shares	4,155,822	-	-	-	-	-	-
Share-based compensation	-	-	196,371	-	-	-	196,371
Other comprehensive income	-	-	-	-	(20,227)	-	(20,227)
Net income	-	-	-	4,459,164	-	42	4,459,206
Disposal of a subsidiary	-	-	939	-	-	(554)	385
Balance as of September 30, 2021	308,609,602	21	5,614,716	8,596,706	(94,618)	-	14,116,825
Balance as of January 1, 2022	310,486,975	22	5,672,267	9,642,506	(110,932)	12,746	15,216,609
Issuance of ordinary shares	2,035,728	-	-	-	-	-	-
Share-based compensation	-	-	148,383	-	-	-	148,383
Dividends to shareholders	-	-	-	(683,416)	-	-	(683,416)
Other comprehensive income	-	-	-	-	80,270	-	80,270
Net income (loss)	-	-	-	3,152,172	-	(14,505)	3,137,667
Capital injection of non-controlling interest holders to a subsidiary	-	-	-	-	-	90,000	90,000
Balance as of September 30, 2022	312,522,703	22	5,820,650	12,111,262	(30,662)	88,241	17,989,513

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”) except for number of shares and per share data, or otherwise noted)

	Nine months ended September 30,		
	2021	2022	2022
	<i>RMB</i>	<i>RMB</i>	<i>USD</i>
			<i>(Note 2)</i>
Cash Flows from Operating Activities:			
Net income	4,459,206	3,137,667	441,086
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and reduction			
in right-of-use assets	35,965	58,381	8,207
Share-based compensation	196,371	148,383	20,859
Investment (gain) loss	(10,115)	8,996	1,265
Provision for loans receivable, financial			
assets receivable and accounts			
receivable and contract assets	1,222,149	1,549,008	217,756
Provision for contingent liabilities	1,918,899	3,305,458	464,674
Foreign exchange (gain) loss	(17,898)	155,241	21,823
Fair value change of foreign exchange			
options	–	(7,377)	(1,037)
Changes in operating assets and liabilities			
Funds receivable from third party payment			
service providers	(76,402)	(830,700)	(116,778)
Accounts receivable and contract assets	23,016	(246,178)	(34,607)
Financial assets receivable	(869,542)	49,180	6,914
Prepaid expenses and other assets	81,622	(140,606)	(19,766)
Security deposit prepaid to third-party			
guarantee companies	(20,297)	325,337	45,735
Deferred tax	309,622	(260,790)	(36,661)
Other assets	(8,390)	(52,376)	(7,363)
Amounts due from/to related parties	(1,038,812)	374,779	52,686
Guarantee liabilities	(1,836,938)	(3,619,233)	(508,784)
Income tax payable	(235,670)	59,230	8,326
Other tax payable	39,015	(55,099)	(7,746)
Accrued expenses and other			
current liabilities	688,243	169,638	23,847
Other long-term liabilities	(5,029)	13,697	1,925
Interest receivable	(40,521)	(12,598)	(1,771)
Land use rights	(1,036,178)	–	–
Net cash provided by operating activities	3,778,316	4,130,038	580,590

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	Nine months ended September 30,		
	2021	2022	2022
	<i>RMB</i>	<i>RMB</i>	<i>USD</i>
			<i>(Note 2)</i>
Cash Flows from Investing Activities:			
Purchase of property and equipment and intangible assets	(17,244)	(13,086)	(1,840)
Loans provided to related parties	(50,000)	–	–
Investment in loans receivable	(30,180,828)	(41,317,180)	(5,808,277)
Collection of investment in loans receivable	24,534,751	35,695,623	5,018,011
Capital injection to an investee entity	–	(8,996)	(1,265)
Purchase of short-term investments	–	(30,000)	(4,217)
Purchase of foreign exchange options	–	(5,338)	(750)
Disposal of subsidiaries and other business units, net of cash received	(5,492)	3,349	471
Net cash used in investing activities	(5,718,813)	(5,675,628)	(797,867)
Cash Flows from Financing Activities:			
Proceeds from short-term loans	150,327	190,179	26,735
Proceeds from long-term loans	–	4,193	589
Cash received from investors of the consolidated trusts	4,587,773	6,816,920	958,307
Cash paid to investors of the consolidated trusts	(3,559,968)	(3,209,480)	(451,182)
Contribution by non-controlling interests	–	90,000	12,652
Dividend to shareholders	–	(784,363)	(110,264)
Loan received from non-controlling interests	344,487	3,000	422
Loan payment to non-controlling interests	(30,168)	(90,000)	(12,652)
Cash received from a related party for investment	344,487	–	–
Cash repayment to a related party	(30,168)	(10,180)	(1,431)
Net cash provided by financing activities	1,806,770	3,010,269	423,176
Effect of foreign exchange rate changes	(2,709)	4,704	663
Net increase in cash and cash equivalents	(136,436)	1,469,383	206,562
Cash, cash equivalents, and restricted cash, beginning of period	6,774,266	8,759,947	1,231,454
Cash, cash equivalents, and restricted cash, end of period	6,637,830	10,229,330	1,438,016

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	Nine months ended September 30,		
	2021	2022	2022
	<i>RMB</i>	<i>RMB</i>	<i>USD</i>
			<i>(Note 2)</i>
Supplemental disclosures of cash flow information:			
Income taxes paid	(948,001)	(781,452)	(109,855)
Interest paid (not including interest paid to investors of consolidated trusts)	(12,304)	(8,821)	(1,240)
Supplemental disclosure of significant non-cash investing and financing activities:			
Payables for dividends	–	200,076	28,126
Reconciliation to amounts on consolidated balance sheet:			
Cash and cash equivalents	4,224,320	7,219,700	1,014,929
Restricted cash	2,413,510	3,009,630	423,087
Total cash, cash equivalents, and restricted cash	6,637,830	10,229,330	1,438,016

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“USD”) except for number of shares and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

360 DigiTech, Inc. (the “Company”, previously known as “360 Finance, Inc.”) was incorporated in Cayman Islands with limited liability on April 27, 2018. The Company, its subsidiaries, its consolidated variable interest entities (“VIEs”) (together, the “Group”) are engaged in matching borrowers with credit demand to a diversified pool of financial institutions with credit to supply through a financial technology platform.

The VIE arrangements

PRC laws and regulations prohibit or restrict foreign control of companies involved in provision of internet content and certain finance business. To comply with these foreign ownership restrictions, the Company operates substantially all of its service through its VIEs in the PRC.

The VIEs hold leases and other assets necessary to provide services and generate the majority of the Company’s revenues. To provide the Company effective control over the VIEs and the ability to receive substantially all of the economic benefits of the VIEs, a series of contractual arrangements were entered into amongst Qiyue (“WFOE”), VIEs and their beneficial shareholders. In June 2022, the set of VIE agreements were terminated and replaced by a set of new VIE agreements signed by the same parties, with no material changes to the major terms.

Risks in relation to VIE structure

The following financial statement amounts and balances of the VIEs were included in the accompanying unaudited condensed consolidated financial statements after elimination of intercompany transactions and balances. The table below does not include the financial information of the consolidated trusts (see note 2 “Consolidated Trusts”):

	December 31, 2021 RMB	September 30, 2022 RMB
ASSETS		
Cash and cash equivalents	4,605,851	6,753,079
Restricted cash	1,986,512	2,383,178
Short term investments	–	30,000
Security deposit prepaid to third-party guarantee companies	874,886	549,548
Funds receivable from third party payment service providers	153,151	983,851
Accounts receivable and contract assets, net	2,133,477	1,589,517
Financial assets receivable, net	3,806,243	3,321,117
Amounts due from related parties	608,924	317,557
Loans receivable, net	1,197,532	1,998,988
Prepaid expenses and other assets	235,780	337,254
Accounts receivable and contract assets, net-non current	217,298	297,756
Financial assets receivable, net-non current	597,965	755,977
Amounts due from related parties, non-current	121,855	70,322
Loans receivable, net-non current	1,029,545	2,575,089
Property and equipment, net	15,074	17,887
Land use rights, net	1,018,908	1,003,366
Intangible assets	3,972	4,131
Deferred tax assets	779,291	1,086,165
Other non-current assets	27,729	42,719
Total Assets	19,413,993	24,117,501

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	December 31, 2021 RMB	September 30, 2022 RMB
LIABILITIES		
Accrued expenses and other current liabilities	1,820,609	1,699,591
Amounts due to related parties	94,057	138,542
Short term loans	150,000	150,000
Guarantee liabilities – stand ready	4,818,144	4,385,117
Guarantee liabilities – contingent	3,285,081	3,404,333
Income tax payable	449,553	644,363
Other tax payable	218,017	146,792
Deferred tax liabilities	65,542	23,810
Other long-term liabilities	10,271	22,929
	<u>10,911,274</u>	<u>10,615,477</u>
Total liabilities	10,911,274	10,615,477
	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Net revenue	10,070,969	10,012,621
Net income	4,551,396	2,291,880
	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Net cash provided by operating activities	3,274,881	3,191,592
Net cash (used in) investing activities	(1,008,797)	(2,964,541)
Net cash provided by (used in) financing activities	673,400	(2,987)

The consolidated VIEs contributed 82% and 79% of the Group’s consolidated revenue for the nine months ended September 30, 2021 and 2022, respectively. As of December 31, 2021 and September 30, 2022, the consolidated VIEs accounted for an aggregate of 58% and 60%, respectively, of the consolidated total assets, and 60% and 48%, respectively, of the consolidated total liabilities.

Other than the land use right held as loan collateral as disclosed in Note 8, there are no assets of the VIEs that are collateral for the obligations of the VIEs and their subsidiaries and can only be used to settle the obligations of the VIEs and their subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs ever need financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholder of the VIEs.

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of their statutory reserve and their paid-in capital, to the Company in the form of cash dividends.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) regarding interim financial reporting, and include all normal and recurring adjustments that management of the Group considers necessary for a fair presentation of its financial position and operating results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Accordingly, these financial statements should be read in conjunction with the Group’s audited consolidated financial statements and notes for the six months ended June 30, 2022.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The financial information as of December 31, 2021 presented in the unaudited condensed consolidated financial statements is derived from the audited consolidated financial statements for the year ended December 31, 2021.

The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year.

Basis of consolidation

The accompanying unaudited condensed consolidated financial statements include the financial statements of the Company, its subsidiaries, and consolidated VIEs. All inter-company transactions and balances have been eliminated.

Consolidated Trusts

For some trusts, the trust beneficial rights, or the loans receivable in the trusts, were transferred, as underlying assets, to the asset backed special plans (the “ABS plans”). The beneficial rights and loans receivable of RMB4.1 billion and RMB5.1 billion in trusts were transferred to the ABS plans for the nine months ended September 30, 2021 and 2022, respectively.

The following financial statement amounts and balances of the consolidated trusts were included in the accompanying unaudited condensed consolidated financial statements after elimination of intercompany transactions and balances:

	December 31, 2021 RMB	September 30, 2022 RMB
ASSETS		
Restricted cash	657,075	626,452
Loans receivable, net	8,646,950	12,003,519
Prepaid expenses and other assets	104,515	111,039
Loans receivable, net-noncurrent	1,829,804	714,412
	<u>11,238,344</u>	<u>13,455,422</u>
Total Assets	11,238,344	13,455,422
	December 31, 2021 RMB	September 30, 2022 RMB
LIABILITIES		
Payable to investors of the consolidated trusts-current	2,304,518	6,173,089
Accrued expenses and other current liabilities	5,928	17,081
Other tax payable	34,448	36,485
Payable to investors of the consolidated trusts-noncurrent	4,010,597	3,802,348
	<u>6,355,491</u>	<u>10,029,003</u>
Total liabilities	6,355,491	10,029,003
	Nine months ended September 30, 2021 RMB	2022 RMB
Net revenue	1,127,851	1,667,660
Net income	372,408	806,808

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Net cash provided by operating activities	847,960	1,332,513
Net cash (used in) investing activities	(4,690,085)	(2,707,114)
Net cash provided by financing activities	1,027,804	3,607,440

The consolidated trusts contributed 9% and 13% of the Group's consolidated revenue for the nine months ended September 30, 2021 and 2022, respectively. As of December 31, 2021 and September 30, 2022, the consolidated trusts accounted for an aggregate of 34% and 34%, respectively, of the consolidated total assets, and 35% and 46% respectively, of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company to provide financial support to the consolidated trusts.

The Group believes that the assets of the consolidated trusts could only be used to settle the obligations of the consolidated trusts.

Fair Value

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying values of financial instruments, which consist of cash and cash equivalents, restricted cash, short-term investment, security deposits, accounts receivable and contract assets, financial assets receivable, funds receivable from third party payment service providers, loans receivable, short term loan, payable to investors of the consolidated trusts, and amounts due from/to related parties are recorded at cost which approximates their fair value due to the short-term nature of these instruments.

As of September 30, 2022, the Group's long-term financial instruments that are not reported at fair value on balance sheet include loans receivable, payable to investors of the consolidated trusts, accounts receivable and contract assets, financial assets receivable and accounts receivable, contract assets and financial assets receivable from related parties (recorded as "amounts due from related parties"). Fair values of these financial instruments are estimated using a discounted cash flow model based on contractual cash flows. The fair values of loans receivable, accounts receivable and contract assets, financial assets receivable are classified as Level 3 fair value measurement due to the significant unobservable inputs concerning the estimation of default rate. The fair value of payable to investors of the consolidated trusts is classified as Level 2 fair value measurement.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

As of September 30, 2022, the differences between fair values and carrying amount for loans receivable and payable to investors are due to the discount factor or interests in future periods, and the fair value approximates the carrying amount. For accounts receivable and contract assets, financial assets receivable, the differences are due to the discount factor solely and the fair value approximates the carrying amount.

The Group has foreign exchange options that are recorded at fair value subsequent to initial recognition on a recurring basis. The fair value of such options amount to RMB12,715, which is estimated based on interbank market quoted price and is classified as Level 2 in the fair value hierarchy. Fair value measurement on a nonrecurring basis for the nine months ended September 30, 2022 included that used in impairment of an equity-method investment which was classified as a Level 3 fair value measurement.

Convenience translation

The Group's business is primarily conducted in China and all of the revenues are denominated in RMB. The financial statements of the Group are stated in RMB. Translations of balances in the condensed consolidated balance sheet, and the related condensed consolidated statements of operations, shareholders' equity and cash flows from RMB into US dollars as of and for the period ended September 30, 2022 are solely for the convenience of the readers and were calculated at the rate of USD1.00 = RMB7.1135, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on September 30, 2022. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into USD at that rate or at any other rate.

3. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS, NET

The Group's accounts receivable as of December 31, 2021 and September 30, 2022 are as follows:

As of December 31, 2021	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
Accounts receivable from loan facilitation service	502	(375)	127
Accounts receivable from post facilitation service	5,825	(1,683)	4,142
Accounts receivable from referral services	10,797	–	10,797
Total	17,124	(2,058)	15,066
As of September 30, 2022	Accounts receivable	Allowance for uncollectible Accounts receivable	Accounts receivable, net
Accounts receivable from referral services	10,903	–	10,903
Total	10,903	–	10,903

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The movement of allowance for uncollectible accounts receivables for the nine months ended September 30, 2021 and 2022 are as follows:

	Opening balance as of January 1, 2021	Current period net provision	Write off in the current period	Ending balance as of September 30, 2021
Accounts receivable from loan facilitation service	17,462	(10,904)	(6,091)	467
Accounts receivable from post facilitation service	3,958	1,845	(4,082)	1,720
Accounts receivable from referral services	1,836	–	(1,836)	–
Total	23,256	(9,059)	(12,009)	2,187

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of September 30, 2022
Accounts receivable from loan facilitation service	375	–	(375)	–
Accounts receivable from post facilitation service	1,683	–	(1,683)	–
Total	2,058	–	(2,058)	–

The Group's contract assets as of December 31, 2021 and September 30, 2022 are as follows:

As of December 31, 2021	Contract assets	Allowance for Uncollectible Contract assets	Contract assets, net
Contract assets from loan facilitation service	3,097,872	(287,397)	2,810,475
Contract assets from post facilitation service	282,767	(26,457)	256,310
Contract assets from referral services	238,877	–	238,877
Total	3,619,516	(313,854)	3,305,662

As of September 30, 2022	Contract assets	Allowance for Uncollectible Contract assets	Contract assets, net
Contract assets from loan facilitation service	3,130,934	(297,032)	2,833,902
Contract assets from post facilitation service	364,824	(22,901)	341,923
Contract assets from referral services	220,561	–	220,561
Total	3,716,319	(319,933)	3,396,386

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The movement of allowance for uncollectible contract assets for the nine months ended September 30, 2021 and 2022 are as follows:

	Opening balance as of January 1, 2021	Current period net provision	Write off in the current period	Ending balance as of September 30, 2021
Contract assets from loan facilitation service	222,526	132,648	(73,934)	281,240
Contract assets from post facilitation service	10,045	34,908	(27,959)	16,994
Total	232,571	167,556	(101,893)	298,234

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of September 30, 2022
Contract assets from loan facilitation service	287,397	118,281	(108,646)	297,032
Contract assets from post facilitation service	26,457	41,335	(44,891)	22,901
Total	313,854	159,616	(153,537)	319,933

The Group's contract assets generated from related parties and recorded in amounts due from related parties as of December 31, 2021 and September 30, 2022 are as follows:

	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
As of December 31, 2021			
Contract assets from loan facilitation service	953,846	(120,208)	833,638
Contract assets from post facilitation service	5,178	(1,809)	3,369
Total	959,024	(122,017)	837,007

	Accounts receivable and contract assets	Allowance for uncollectible accounts receivable and contract assets	Accounts receivable and contract assets, net
As of September 30, 2022			
Contract assets from loan facilitation service	443,777	(101,661)	342,116
Contract assets from post facilitation service	18,051	(6,206)	11,845
Contract assets from referral services	25,058	-	25,058
Total	486,886	(107,867)	379,019

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The movement of allowance for uncollectible accounts receivables and contract assets generated from related parties and recorded in amounts due from related parties for nine months ended September 30, 2021 and 2022 are as follows:

	Opening balance as of January 1, 2021	Current period net provision	Write off in the current period	Ending balance as of September 30, 2021
Contract assets from loan facilitation service	8,072	122,560	(5,209)	125,423
Contract assets from post facilitation service	227	5,145	(4,778)	594
Total	8,299	127,705	(9,987)	126,017

	Opening balance as of January 1, 2022	Current period net provision	Write off in the current period	Ending balance as of September 30, 2022
Contract assets from loan facilitation service	120,208	(1,012)	(17,535)	101,661
Contract assets from post facilitation service	1,809	12,183	(7,786)	6,206
Total	122,017	11,171	(25,321)	107,867

As of December 31, 2021 and September 30, 2022, the principal of accounts receivable and contract assets by year of origination:

	2021	2020	Total
As of December 31, 2021			
Loan facilitation service	2,708,137	390,236	3,098,373
Post facilitation service	249,726	38,867	288,593
Referral Service	249,674	-	249,674
Total	3,207,537	429,103	3,636,640

	2022	2021	2020	Total
As of September 30, 2022				
Loan facilitation service	2,744,208	369,128	17,598	3,130,934
Post facilitation service	340,980	16,338	7,506	364,824
Referral Service	231,464	-	-	231,464
Total	3,316,652	385,466	25,104	3,727,222

The past-due balance of the Group's accounts receivable as of December 31, 2021 and September 30, 2022 are immaterial.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The Group did not recognize any contract liabilities during the periods presented. The amount of the transaction price allocated to performance obligations that are unsatisfied as of December 31, 2021 and September 30, 2022, are RMB1,637,484 and RMB1,639,375, respectively, all of which pertain to post-origination service. Remaining unsatisfied performance obligations that will be recognized as revenue by the Group within the following 12 months are 88% and 79% of the remaining performance obligations as of December 31, 2021 and September 30, 2022, respectively, with the remainder recognized thereafter.

4. FINANCIAL ASSETS RECEIVABLE, NET

The Group’s financial assets receivable as of December 31, 2021 and September 30, 2022 are as follows:

	December 31, 2021	September 30, 2022
	<i>RMB</i>	<i>RMB</i>
Financial assets receivable	4,897,854	4,614,070
Allowance for uncollectible receivables	(493,646)	(536,976)
	<u>4,404,208</u>	<u>4,077,094</u>
Financial assets receivable, net	<u>4,404,208</u>	<u>4,077,094</u>

The movement of financial assets receivable for the nine months ended September 30, 2021 and 2022 is as follows:

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Balance at beginning of period	4,601,642	4,897,854
Addition in the current period	4,943,489	4,391,406
Collection in the current period	(4,073,947)	(4,440,585)
Write-off	(109,429)	(234,605)
	<u>5,361,755</u>	<u>4,614,070</u>
Balance at end of period	<u>5,361,755</u>	<u>4,614,070</u>

The movement of allowance for uncollectible receivables for the nine months ended September 30, 2021 and 2022 is as follows:

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Balance at beginning of period	390,834	493,646
Current period net provision	172,854	277,935
Write-off	(109,429)	(234,605)
	<u>454,259</u>	<u>536,976</u>
Balance at end of period	<u>454,259</u>	<u>536,976</u>

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The movement of financial assets receivable generated from related parties and recorded in amounts due from related parties for the nine months ended September 30, 2021 and 2022 is as follows:

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Balance at beginning of period	3,149	–
Addition in the current period	–	26,859
Collection in the current period	(309)	(2,617)
Write-off	(2,840)	(3)
	<u>–</u>	<u>24,239</u>
Balance at end of period	<u>–</u>	<u>24,239</u>

The movement of allowance for uncollectible receivables generated from related parties and recorded in amounts due from related parties for the nine months ended September 30, 2021 and 2022 is as follows:

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Balance at beginning of period	2,033	–
Current period net provision	807	1,426
Write-off	(2,840)	(3)
	<u>–</u>	<u>1,423</u>
Balance at end of period	<u>–</u>	<u>1,423</u>

The following table summarizes the aging of the Group's financial assets receivable as of December 31, 2021 and September 30, 2022:

	0-30 days past due	31-60 days past due	Over 60 days past due	Current	Total financial assets receivable
December 31, 2021	15,594	12,038	–	4,870,222	4,897,854
September 30, 2022	33,033	36,128	–	4,544,909	4,614,070

As of December 31, 2021 and September 30, 2022, the principal of financial assets receivable by year of origination:

	2021	2020	Total
As of December 31, 2021	4,078,249	819,605	4,897,854
	2022	2021	2020
As of September 30, 2022	3,041,583	1,402,475	170,012
			4,614,070

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

5. LOANS RECEIVABLE, NET

Loans receivable consists of the following:

	December 31, 2021 RMB	September 30, 2022 RMB
Loans receivable	13,652,723	18,557,814
Less allowance for loan losses	(948,893)	(1,265,806)
Loans receivable, net	<u>12,703,830</u>	<u>17,292,008</u>

As of December 31, 2021 and September 30, 2022, the accrued interest receivables are RMB86,144 and RMB151,625 (net of allowance RMB5,987 and RMB10,342, respectively), which is recorded under loans receivable.

The following table presents the aging of loans as of December 31, 2021 and September 30, 2022:

	0-30 days past due	31-60 days past due	Total amount past due	Current	Total loans
As of December 31, 2021	113,771	87,171	200,942	13,451,781	13,652,723
As of September 30, 2022	148,808	103,503	252,311	18,305,503	18,557,814

The Group has not recorded any financing income on an accrual basis for the loans that are past due for more than 60 days for the nine months ended September 30, 2022 (60 days in 2021). Loans are returned to accrual status if they are brought to non-delinquent status or have performed in accordance with the contractual terms for a reasonable period of time and, in the Group’s judgment, will continue to make periodic principal and interest payments as scheduled. For the nine months ended September 30, 2021 and 2022, the Group has charged off loans receivable of RMB314 million and RMB806 million, respectively.

Movement of allowance for loan losses is as follows:

	Nine months ended September 30,	
	2021 RMB	2022 RMB
Balance at beginning of period	421,767	948,893
Provision for loan losses	742,286	1,098,859
Gross write-off	(313,536)	(806,127)
Recoveries	31,574	24,181
Balance at end of period	<u>882,091</u>	<u>1,265,806</u>

The principal of loans receivable as of December 31, 2021 by year of origination is as follows:

	2021	2020	Total loans
Loans receivable	13,614,369	38,354	13,652,723

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

The principal of loans receivable as of September 30, 2022 by year of origination is as follows:

	2022	2021	2020	Total loans
Loans receivable	16,649,447	1,896,796	11,571	18,557,814

6. LAND USE RIGHTS, NET

Land use rights represent acquired right to use the parcel of land on which the Group’s regional headquarters and affiliated industrial park stand. In 2021, the Group acquired the land use rights in Shanghai from the local authorities. Amortization of the land use right is made over the remaining term of the land use right period from the date when the land was made available for use by the Group. The land use rights are summarized as follows:

	December 31, 2021 RMB	September 30, 2022 RMB
Cost	1,036,178	1,036,179
Accumulated amortization	(17,270)	(32,813)
Land use rights, net	1,018,908	1,003,366

The total amortization expense for the nine months ended September 30, 2021 and 2022 amounted to RMB12,089 and RMB15,543 respectively.

7. SHORT-TERM LOANS

Short-term loans as of December 31, 2021 represents bank borrowings of USD38,850 and RMB150,000 obtained from domestic commercial banks, the latter loan is guaranteed by Shanghai Qibutianxia Co., Ltd. and WFOE. The short-term loan of USD38,850 bears interest rates of London InterBank Offered Rate (“LIBOR”) plus 300bps. The loan of RMB150,000 applying a fixed rate of 4.05%.

Short-term loans as of September 30, 2022 represents bank borrowings of USD38,850, RMB150,000 and USD30,000 obtained from domestic commercial banks. The short-term loan of USD30,000 bears interest rates of London InterBank Offered Rate (“LIBOR”) plus 330bps for the nine months ended September 30, 2022.

The weighted average interest rate for the outstanding borrowings as of December 31, 2021 and September 30, 2022 was 3.46% and 5.75%, respectively. There is one financial covenant stipulating that Qiyu shall not make dividend distribution before the loans, interest and other payable due under the contract are paid.

8. LONG-TERM LOANS

In June 2022, Shanghai 360 Changfeng Technology, Co., Ltd. (“360 Changfeng”) signed a mortgage loan agreement of RMB1 billion with tenure of 25 years. The interest rate is based on market price quote for loans with tenure of more than five years minus 136bps. The loan is guaranteed by the land use rights owned by 360 Changfeng and is for the specific use of construction of the regional headquarters and the affiliated industrial park. The mortgage loan agreement requires the subsidiary’s registered capital to be paid in the same proportion of the total facility used. In September, the registered capital of the subsidiary has been fully paid. As of September 30, 2022, the balance of used mortgage loan is RMB4,193, which is included in other long-term liabilities.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022**

9. GUARANTEE LIABILITIES

The movement of guarantee liabilities during the nine months ended September 30, 2021 and 2022 is as follows:

Guarantee liabilities-stand ready

	<i>RMB</i>
As of January 1, 2021	4,173,497
Provision at the inception of new loans	4,943,489
Released into revenue	(4,460,935)
	<hr/>
As of September 30, 2021	4,656,051
	<hr/> <hr/>
As of January 1, 2022	4,818,144
Provision at the inception of new loans	4,418,265
Released into revenue	(4,851,292)
	<hr/>
As of September 30, 2022	4,385,117
	<hr/> <hr/>

Guarantee liabilities-contingent

	<i>RMB</i>
As of January 1, 2021	3,543,454
Provision for contingent liabilities	1,918,899
Net payout (1)	(2,320,195)
	<hr/>
As of September 30, 2021	3,142,158
	<hr/> <hr/>
As of January 1, 2022	3,285,081
Provision for contingent liabilities	3,305,458
Net payout (1)	(3,186,206)
	<hr/>
As of September 30, 2022	3,404,333
	<hr/> <hr/>

(1) Net payout represents the amount paid upon borrowers' default net of subsequent recoveries from the borrowers during a given period.

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
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The following table summarizes the aging of the Group’s contractual amounts of the outstanding loans subject to guarantee:

	0-30 days past due	31-60 days past due	61-90 days past due	Over 90 days past due	Current	Total loans
December 31, 2021 (RMB):	446,780	235,769	57,526	–	49,117,630	49,857,705
September 30, 2022 (RMB):	481,618	214,321	21,382	–	48,021,601	48,738,922

As of December 31, 2021 and September 30, 2022, the contractual amounts of the outstanding loans subject to guarantee by the Group were RMB49,857,705 and RMB48,738,922, respectively. The approximate term of guarantee compensation service ranged from 1 month to 36 months as both of December 31, 2021 and September 30, 2022. As of December 31, 2021 and September 30, 2022, the contractual amounts of the outstanding loans (excluding loans that are written off) that have been compensated by the Group were RMB3,129,264 and RMB3,860,296, respectively.

10. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group, with which the Group entered into transactions during the nine months ended September 30, 2021 and 2022:

Name of related parties	Relationship with the group
360 Security Technology Inc. (“360 Group”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qifutong Technology Co., Ltd. (“Qifutong”)	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Shanghai Qibutianxia Information Technology Co., Ltd. (“Qibutianxia”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qicaitianxia Technology Co., Ltd. (“Qicaitianxia”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qihu Technology Co., Ltd. (“Qihu”)	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Jinshang Consumer Finance Co.,Ltd. (“Jinshang”)	An affiliate of an entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Zixuan Information Technology Co., Ltd. (“Beijing Zixuan”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Xixian New Area Financial Asset Exchange Co., Ltd. (“Xixian”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Qifei Xiangyi Consultation Co., Ltd (“Beijing Qifei”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Hangzhou Qifei Huachuang Technology Co, Ltd (“Hangzhou Qifei”)	Investee of the Group
Shanghai Jiehu Internet Technology Co., Ltd. (“Shanghai Jiehu”)	An affiliate of 360 Group, ultimately controlled by Mr. Zhou, the Chairman of the Group
Kincheng Bank of Tianjin Co., Ltd. (“Kincheng Bank”)	An affiliate of an entity controlled by Mr. Zhou, the Chairman of the Group
Tianjin Yujie Technology Co., Ltd. (“Yujie”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Beijing Hongying Information Technology Co., Ltd. (“Hongying”)	Entity controlled by Mr. Zhou, the Chairman of the Group
Shareholders	Shareholders of the Group
Others	Entities controlled by Mr. Zhou, the Chairman of the Group

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
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The Group entered into the following transactions with its related parties:

For the nine months ended September 30, 2021 and 2022, services provided by the related parties were RMB341,793 and RMB445,061, respectively.

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Referral service fee charged by Yujie	217,889	298,069
Bandwidth service fee charged by Qihu	79,714	96,387
Brand fees charged by Qihu	11,792	35,376
Referral service fee charged by Qihu	16,760	1,251
Rental expenses charged by Hongying	8,561	10,967
Corporate expenses allocated from Qibutianxia	5,660	–
Others	1,417	3,011
	<u>341,793</u>	<u>445,061</u>
Total	<u>341,793</u>	<u>445,061</u>

For the nine months ended September 30, 2021 and 2022, services provided to the related parties were RMB1,702,734 and RMB1,016,463, respectively.

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Referral service fee charged from Kincheng Bank	–	109,000
Loan facilitation services fee charged from Kincheng Bank	1,303,832	349,553
Loan facilitation services fee charged from Jinshang	165,528	101,190
Loan facilitation services fee charged from Beijing Zixuan	37	–
Post-facilitation services fee charged from Kincheng Bank	169,274	364,455
Post-facilitation services fee charged from Jinshang	50,665	52,180
Post-facilitation services fee charged from Beijing Zixuan	56	–
Others	13,342	40,085
	<u>1,702,734</u>	<u>1,016,463</u>
Total	<u>1,702,734</u>	<u>1,016,463</u>

Jinshang is an affiliate of an entity controlled by Mr. Zhou and provides funds to the borrowers through the Group’s platform. Kincheng Bank is an affiliate of an entity controlled by Mr. Zhou and provides funds to the borrowers through the Group’s platform. The Group collected service fees from Jinshang and Kincheng Bank. The amounts from Jinshang and Kincheng Bank represent the loan facilitation service, post-facilitation service and referral service fees charged from them.

The Company has held bank deposit with Kincheng Bank which amounted to RMB320,491 and RMB2,825,298 as of December 31, 2021 and September 30, 2022. The related interest income was RMB11,954 and RMB63,553 for the nine months ended September 30, 2021 and 2022, respectively and interest receivable as of December 31, 2021 and September 30, 2022 was RMB79 and RMB53,364, respectively.

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As of December 31, 2021 and September 30, 2022, amounts due from related parties were RMB978,175 and RMB590,246, respectively, and details are as follows:

	December 31, 2021 RMB	September 30, 2022 RMB
Kincheng Bank	771,335	410,015
Jinshang	194,123	158,414
Shareholders (1)	10,158	3,614
Others	2,559	18,203
Total	978,175	590,246

(1) The balance represents the ADS registration fees incurred on behalf of certain shareholders that are to be reimbursed from them.

As of December 31, 2021 and September 30, 2022, amounts due to related parties were RMB214,057 and RMB203,324 respectively, and details are as follows:

	December 31, 2021 RMB	September 30, 2022 RMB
Qibutianxia	9,156	1,656
Qihu	144,999	174,055
Yujie	30,165	11,340
Others	29,737	16,273
Total	214,057	203,324

Qibutianxia provided joint back to back guarantee to certain third party guarantee companies for the loans facilitated by the Group. The amounts of loans under such arrangement are RMB11,803,492 and RMB4,417,883 as of December 31, 2021 and September 30, 2022 respectively.

In September, 2020, Beijing Qifei transferred to the Group part of its interest in Hangzhou Qifei, a joint venture company established by Beijing Qifei and an independent third party. After the transfer, Beijing Qifei and the Group hold 26% and 25% of the equity interest in the investee, respectively. As part of the arrangement, the Group is responsible to assist Hangzhou Qifei in meeting certain performance targets. The Group accounted for the equity investment using alternative measurement, and the carrying amount was nil since no capital contribution has been made as of December 31, 2021. The Company made investment of RMB8,996 to Hangzhou Qifei during the nine months ended September 30, 2022, and the investment was fully impaired at the same period after considering the business forecast of the investee and the fair value of this equity investment. Thus, the carrying amount of Hangzhou Qifei is nil as of September 30, 2022. The Company is not obligated to fund its remaining unpaid share of registered capital of RMB41,004 till June 30, 2028 and given the uncertainty with regards to the financial position of the investee, the probability of future contribution and the exact amount cannot be estimated, thus no additional liabilities are accrued as of September 30, 2022.

In October 2020, the Group established a company, 360 Changfeng in Shanghai, China through Qiyu together with Shanghai Jiehu and an independent third party, Changfeng, to develop and build regional headquarter and the affiliated industrial park in Shanghai. Changfeng, Shanghai Jiehu and the Group each holds 30%, 30% and 40% of the equity interests, respectively. The shareholders execute their voting rights based on their equity interest and the stakeholders’ meeting will pass the resolutions with the approval of stakeholders representing more than half of the voting rights.

APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

In December 2021, the Group acquired the 30% equity interest held by Shanghai Jiehu and became the controlling shareholder of 360 Changfeng. The transaction is a business acquisition under common control as both Shanghai Jiehu and the Group is ultimately controlled by Mr. Zhou, and has been retrospectively reflected for all periods presented. The impact to prior year financials was inconsequential.

Pursuant to the agreement, the shareholders is obligated to contribute initial funding for acquisition of land use rights and funds required for subsequent developments will be mainly financed by external financings with any remaining shortfall funded by the shareholders ratably in proportion to their respective equity interest ownership.

As of December 31, 2021 and September 30, 2022, shareholders of the Company have invested a total of RMB1.0 billion, of which RMB0.3 billion was funded by the Changfeng.

11. NET REVENUE

The following table presents the disaggregation of revenue for the nine months ended September 30, 2021 and 2022:

		Nine months ended September 30,	
		2021	2022
		<i>RMB</i>	<i>RMB</i>
Credit driven services		7,476,006	8,809,503
Loan facilitation and servicing fees- capital heavy		1,846,102	1,724,628
Revenue from loan facilitation services	At a point in time	1,105,164	1,235,784
Revenue from post-facilitation services	Over time	740,938	488,844
Financing income	Over time	1,468,075	2,485,871
Revenue from releasing of guarantee liabilities	Over time	4,088,453	4,522,107
Other services fees	At a point in time	73,376	76,897
Platform services		4,737,574	3,837,872
Loan facilitation and servicing fees- capital light		4,192,673	3,169,165
Revenue from loan facilitation services	At a point in time	3,432,784	2,003,965
Revenue from post-facilitation services	Over time	759,889	1,165,200
Referral services fees	At a point in time	442,889	468,031
Other services fees	At a point in time/Over time	102,012	200,676
Total net revenue		12,213,580	12,647,375

Total revenue recognized at a point of time is RMB5,114 million and RMB3,930 million for the nine months ended September 30, 2021 and 2022. Total revenue recognized over time is RMB7,099 million and RMB8,717 million for the nine months ended September 30, 2021 and 2022.

12. INCOME TAXES

The current and deferred portion of income tax expenses included in the condensed consolidated statement of operations, which were all attributable to the Group is as follows:

		Nine months ended September 30,	
		2021	2022
		<i>RMB</i>	<i>RMB</i>
Current tax		1,121,203	844,137
Deferred tax		(99,247)	(264,246)
Total		1,021,956	579,891

APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Group estimates the annual tax rate based on projected taxable income for the full year and records a quarterly income tax provision in accordance with the guidance on accounting for income taxes in an interim period. As the year progresses, the Group refines the estimates of the year's taxable income as new information becomes available. This continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Group adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate.

The Group's effective tax rate for the nine months ended September 30, 2021 and 2022 was 18.00% and 15.00%, respectively.

The Group did not incur any interest and penalties related to potential underpaid income tax expenses. From 2022, Beihai Borui Credit Service Co., Ltd., benefits from a preferential tax rate of 15% as it falls within the encouraged industries catalogue in western China.

13. DIVIDENDS

Quarterly Dividend Policy

On November 15, 2021, the board of directors of the Company approved a quarterly cash dividend policy. Under the policy, the Company 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 the Company's net income after tax for such quarter. The determination to make dividend distributions and the exact amount of such distributions in any particular quarter will be based upon the Company's operations and financial conditions, and other relevant factors, and subject to adjustment and determination by the board of directors.

The board of directors of the Company has approved a dividend of US\$0.14 per ordinary share, or US\$0.28 per ADS, for the third fiscal quarter of 2021 in accordance with the Company's dividend policy, which was paid on January 18, 2022 to shareholders of record as of the close of business on December 15, 2021.

The board of directors of the Company has approved a dividend of US\$0.13 per ordinary share, or US\$0.26 per ADS, for the fourth fiscal quarter of 2021 in accordance with the Company's dividend policy, which was paid on May 13, 2022 to shareholders of record as of the close of business on April 6, 2022.

The board of directors of the Company has approved and declared a dividend of US\$0.11 per ordinary share, or US\$0.22 per ADS, for the first fiscal quarter of 2022 in accordance with the Company's dividend policy on May 26, 2022, which was paid on July 27, 2022 to shareholders of record as of the close of business on June 20, 2022.

The board of directors of the Company has approved a dividend of US\$0.09 per ordinary share, or US\$0.18 per ADS, for the second fiscal quarter of 2022 in accordance with the Company's dividend policy, which was paid on October 28, 2022 to shareholders of record as of the close of business on September 16, 2022.

14. COMMITMENTS AND CONTINGENCIES

Contingencies

Historically the Group has provided guarantees to certain funding partners through a subsidiary that does not hold a financing guarantee license. In October 2019, the China Banking and Insurance Regulatory Commission ("CBIRC") and other government authorities, promulgated a new regulation pursuant to which this structure, may not be deemed appropriate. The Group has ceased the business in 2020, and for existing loans, the Group will execute the contract until the expiration of the loans. The new regulation is silent with respect to any grace period that may be permitted to undertake the restructuring. Management has concluded, with the advice of the Group's legal counsel, that it is not reasonably possible to estimate any potential financial exposure the Group may have as a result of operating the business during this intermediate time period, due to the substantial uncertainties regarding the interpretation and application of the relevant laws and regulations. As of September 30, 2022, the outstanding loan balance under this guarantee model amounted to RMB0.005 billion, constituting 0.003% of total outstanding loan balance facilitated by the Group (excluding loans delinquent for more than 180 days).

**APPENDIX IB UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
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In July 2020 and in February 2021, CBIRC promulgated two regulations stating that regional banks that carry out internet lending business shall mainly serve local customers, and are not allowed to conduct the internet lending business beyond the local administrative area of their registered place, except those who have no physical business branch, conducting business primarily online as well as meeting the other conditions prescribed by the CBIRC. The Company has changed its distribution strategy so that only local borrowers would be matched to regional banks for new loans facilitated starting from January 1, 2022. The Company believed that, as advised by the Group’s legal counsel, given the lack of exact definition regarding the regional banks in the existing laws and regulations, there are uncertainties as to how the regulation will be implemented, therefore the impact to the Company’s current business operations cannot be reasonably estimated.

In September, 2021, the People’s Bank of China (“PBOC”) issued a new regulation stating that organizations that engage in credit investigation business should obtain the credit reporting business license and comply with its other provisions within an 18 month grace period from its effectiveness date of January 1, 2022. Given that the rule does not specify the legitimacy of existing data analytics or precision marketing service providers in the financial service industry, the Company has concluded, as advised by its legal counsel, that it is not reasonably possible to estimate its impact on the Company’s current business operations for credit assessment on borrowers and the potential penalties incurred by the Company thereof.

The Company and its certain current and former officers and directors are named as defendants in a putative securities class action brought by investors who purchased the Company’s securities between April 30, 2020 and July 8, 2021 and who allegedly suffered damages as a result of alleged misstatements and omissions in the Company’s public disclosure documents in connection with its compliance and data collection practices. On January 14, 2022, Lead Plaintiff filed an Amended Complaint. On March 15, 2022, the Company filed a motion to dismiss the Amended Complaint. On September 26, 2022, Lead Plaintiff notified the Court that he does not intend to file a Second Amended Complaint. The Court entered a judgment in favor of defendants on September 29, 2022. Plaintiff has until October 31, 2022 to appeal the judgment. As the Plaintiff has not appealed till such date, the judgement is final and the Company had no losses over this case.

Commitments

As of September 30, 2022, the Group has certain capital commitments that primarily related to commitments for construction of the regional headquarters and the affiliated industrial park. The total capital commitments contracted but not yet reflected in the financial statements was not less than RMB500 million (US\$70 million) as of September 30, 2022. All of these capital commitments will be fulfilled in the future according to the construction progress.

15. NET INCOME PER SHARE

Basic and diluted net income per share for each of the periods presented were calculated as follows:

	Nine months ended September 30,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
Numerator:		
Net income attributable to shareholders of the Company	4,459,164	3,152,172
Denominator:		
Weighted average Class A and Class B ordinary shares outstanding used in computing basic income per ordinary share	306,641,972	311,571,575
Plus: incremental weighted average ordinary shares from assumed exercise of stock options and restricted shares using the treasury stock method	14,304,755	9,653,228
Weighted average Class A and Class B ordinary shares outstanding used in computing diluted income per ordinary share	320,946,727	321,224,803
Basic net income per share	14.54	10.12
Diluted net income per share	13.89	9.81

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For the nine months ended September 30, 2021 and 2022, no options or restricted share units were excluded from the calculation of diluted net income per share due to the anti-dilutive effect.

[16. SUBSEQUENT EVENTS

On November 11, 2022, the board of directors of the Company has approved a dividend of US\$0.08 per ordinary share, or US\$0.16 per ADS, for the third fiscal quarter of 2022 in accordance with the Company's dividend policy, which is expected to be paid on January 18, 2023 to shareholders of record as of the close of business on December 12, 2022.]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 RMB4,835,000 from the unaudited consolidated net assets of RMB17,901,272,000 attributable to ordinary shareholders of the Company as of September 30, 2022 as extracted from the Unaudited Condensed Consolidated Financial Statements set out in Appendix IB to this [REDACTED].
- (2) The estimated net [REDACTED] from the [REDACTED] of the [REDACTED] pursuant to the [REDACTED] are based on [REDACTED] at the indicative [REDACTED] of HK\$[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 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 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 [REDACTED]. 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 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 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 [REDACTED].
- (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 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 [REDACTED].

After taking into account the dividend distribution as disclosed in the Note 16 “Subsequent Events” to Appendix IB in this [REDACTED], 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 HK\$[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 RMB[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 RMB[REDACTED] and RMB[REDACTED] (equivalent to HK\$[REDACTED] and HK\$[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 are derived from the exchange rate on [November 4, 2022] set forth in the H.10 statistical release of the 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.

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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SUMMARY OF THE CONSTITUTION OF OUR COMPANY

Notwithstanding the current provisions of the Articles, the Company undertakes to comply with (a) the applicable articles requirements under Appendix 3 to the Hong Kong Listing Rules that are not currently met by the Articles and (b) the requirement that where a general meeting is postponed by the directors, the specific date, time and place of the postponed meeting must be specified, before the Articles are formally amended in the First GM such that immediately upon the [REDACTED], the Company will be subject to, and will fully comply with, such articles requirements as if they have already been incorporated into the existing Articles upon the [REDACTED] (save for certain specified exceptions). For further details, please see "Waivers and Exemptions – Requirements Relating to the Articles of Association of our Company."

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 22 October 2018 and effective on 18 December 2018 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available on Display".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 22 October 2018 and effective on 18 December 2018 and include provisions to the following effect:

2.1 Ordinary Shares

The Company's ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Ordinary shares are issued in registered form. Shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

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Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder to any person who is not an Affiliate (as defined in the Articles of Association) of such shareholder, or upon a change of ultimate beneficial ownership of any Class B Ordinary Share to any person who is not an Affiliate of the registered shareholder of such share, such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share.

2.2 Dividends

The holders of ordinary shares are entitled to such dividends as may be declared by the Board of Directors. In addition, shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by the directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or the Company's share premium account, and provided further that a dividend may not be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business.

Dividends received by each Class B ordinary share and Class A ordinary share in any dividend distribution shall be the same.

Any dividend unclaimed after a period of six calendar years from the date of declaration of such dividend may be forfeited by the Board of Directors and, if so forfeited, shall revert to the Company.

2.3 Voting Rights

Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of the shareholders, except as may otherwise be required by law or provided for in the Memorandum and Articles of Association. In respect of matters requiring shareholders' vote, on a show of hands, each shareholder is entitled to one vote for each ordinary shares registered in his name on the register of members of the Company or, on a poll, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 20 votes. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of the meeting or any one or more shareholder present in person or by proxy.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Holders of the ordinary shares may, among other things, divide or consolidate their shares by ordinary resolution. A special resolution requires the affirmative vote of no less than two-thirds of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of

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name or making changes to the Memorandum and Articles of Association. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of the Company, as permitted by the Companies Act and the Memorandum and Articles of Association.

2.4 Transfer of Shares

Any of the shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and in the usual or common form or any other form approved by the Board of Directors.

However, the Board of Directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which the Company has a lien. The Board of Directors may also decline to register any transfer of any ordinary share unless:

- (a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped, if required;
- (d) in the case of a transfer to joint holders, the transfer is not to more than four joint holders; or
- (e) any fee related to the transfer has been paid to the Company.

If the directors refuse to register a transfer they are required, within three months after the date on which the instrument of transfer was lodged with the Company, to send to each of the transferor and the transferee notice of such refusal.

2.5 Liquidation

On a winding up of the Company, the liquidator may, with the sanction of a special resolution of the Company, divide amongst the shareholders in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the like sanction, vest the whole or any part of

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such assets in trustees upon such trusts for the benefit of the shareholders as the liquidator, with the like sanction, shall think fit, but so that no shareholder shall be compelled to accept any asset upon which there is a liability.

On a winding up, if the assets available for distribution amongst the shareholders shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the par value of the shares held by them. If in a winding up the assets available for distribution amongst the shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the shareholders in proportion to the par value of the shares held by them at the commencement of the winding up subject to a deduction from those shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise.

2.6 Redemption, Repurchase and Surrender of Shares

The Company may issue shares on terms that such shares are subject to redemption, at the option of the Company or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by the Board of Directors or by a special resolution of the shareholders. The Company may also repurchase any of the Company's shares (including any redeemable shares) provided that the manner and terms of such purchase have been approved by the Board of Directors or by ordinary resolution of the shareholders, or are otherwise authorized in accordance with the Memorandum and Articles of Association. Under the Companies Act, the redemption or repurchase of any share may be paid out of the Company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the Company has commenced liquidation. In addition, the Company may accept the surrender of any fully paid share for no consideration.

2.7 Variation of Rights of Shares

The rights attaching to any class of shares may, subject to any rights or restrictions for the time being attached to any class, be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

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2.8 General Meetings of Shareholders

Shareholders' general meetings may be held in such place within or outside the Cayman Islands as the Board of Directors considers appropriate.

As a Cayman Islands exempted company, the Company is not obliged by the Companies Act to call shareholders' annual general meetings. The Memorandum and Articles of Association provide that we may in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of the shareholders may be convened by the chairman of the Board of Directors or a majority of the Board of Directors. The Board of Directors shall give not less than ten calendar days' notice of a shareholders' meeting to those persons whose names appear as members in the Company's register of members on the date the notice is given (or on any other date determined by the directors to be the record date for such meeting) and who are entitled to vote at the meeting.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allow shareholders holding shares representing in aggregate not less than one-third of all votes attaching to all issued and outstanding shares of the Company that as at that date carries the right of voting at general meetings of the Company, to requisition an extraordinary general meeting, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, the Memorandum and Articles of Association do not provide the shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

2.9 Appointment and Removal of Directors

The Articles of Association provide that unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three, the exact number of Directors to be determined from time to time by the Board.

The Articles of Association provide that the Company may by ordinary resolution appoint any person to be a Director or remove any Director. In addition, the Board may, by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, appoint any person as a Director to fill a casual vacancy or as an addition to the existing Board of Directors. An appointment of a Director may be on terms that the Director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or

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after any specified period in a written agreement between the Company and the Director, if any; but no such term shall be implied in the absence of express provision. Each Director whose term of office expires shall be eligible for re-election at a meeting of the Shareholders or re-appointment by the Board of Directors.

There is no shareholding qualification for Directors nor is there any specific age limit for Directors.

The office of a Director shall be vacated if the Director:

- (a) becomes bankrupt or makes any arrangement or composition with his creditors;
- (b) dies or is found to be or becomes of unsound mind;
- (c) resigns his office by notice in writing to the Company;
- (d) without special leave of absence from the Board, he is absent from meetings of the Board for three consecutive meetings, and the Board resolves that his office be vacated; or
- (e) is removed from office pursuant to any other provision of the Articles.

2.10 Proceedings of the Board

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority of Directors then in office.

The Directors may meet together (whether within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes and each Director shall be entitled to one (1) vote in deciding matters deliberated at any meeting of the Board. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.11 Changes in Share Capital

The Company may by ordinary resolution:

- (a) increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- (b) increase its share capital by new shares of such amount as it thinks expedient;

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- (c) consolidate and divide all or any of its share capital into shares or larger amount than its existing shares;
- (d) subdivide its existing shares, or any of them, into shares of an amount smaller than that fixed by the Memorandum, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- (e) cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

2.12 Directors' Power to Issue Shares

Subject to the provisions, if any, in the Memorandum and Articles of Association and to any direction that may be given by the Company in a general meeting, the Directors may in their absolute discretion and without approval of the shareholders, issue shares, grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing shareholders, at such times and on such other terms as they think proper.

2.13 Directors Borrowing Powers

The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock and other such securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

2.14 Disclosure of Interest in Contracts with the Company or any of our Subsidiaries

A Director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or transaction which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made or transaction so consummated.

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Subject to the rules of the Designated Stock Exchange (as defined in the Articles of Association) and disqualification by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or transaction or proposed contract or transaction shall come before the meeting for consideration.

2.15 Remuneration of Directors

The remuneration of the Directors may be determined by the Directors or by ordinary resolution.

The Directors may be entitled to be paid all travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive such fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

2.16 Restriction on Ownership of Securities

There are no provisions in the Articles of Association relating to restrictions on ownership of the Company's shares or securities.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 September 2018 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

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3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

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Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

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6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

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9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and

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liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (a) 75% in value of shareholders, or (b) a majority in number representing 75% in value of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

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16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

18 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

APPENDIX III

SUMMARY OF OUR CONSTITUTION AND CAYMAN COMPANY LAW

19 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

20 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

21 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

22 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display on the websites as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available on Display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

APPENDIX IV STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT US

Our Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on April 27, 2018. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. Ms. Kwok Siu Ying Sarah (郭兆瑩) has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of our Constitution and Cayman Company Law” in Appendix III.

Changes in Our Share Capital

As at September 30, 2022, we had an authorized share capital of US\$50,000 divided into 5,000,000,000 shares, comprising (i) 4,900,000,000 Class A ordinary shares with a par value of US\$0.00001 each, (ii) 50,000,000 Class B ordinary shares, with par value of US\$0.00001 each (all of which shall be converted into Class A ordinary shares with no enhanced voting rights upon the removal of the WVR structure), and (iii) 50,000,000 undesignated ordinary shares of a par value of US\$0.00001; and our issued share capital was 272,702,117 Class A ordinary shares and 39,820,586 Class B ordinary shares (all of which shall be converted into Class A ordinary shares with no enhanced voting rights upon the removal of the WVR structure).

The following tables set out the changes in the share capital of our Company during the periods presented in this document:

	Fiscal year ended December 31, 2019		
	Class A ordinary share	Class B ordinary share	Shareholders’ Equity (US\$)
Balances as at January 1, 2019	247,832,121	39,820,586	2,877
Issuance of Shares	5,768,093	–	57
Repurchase and/or retirement of Shares	–	–	–
Balances as at December 31, 2019	<u>253,600,214</u>	<u>39,820,586</u>	<u>2,934</u>

APPENDIX IV STATUTORY AND GENERAL INFORMATION

	Fiscal year ended December 31, 2020		
	Class A	Class B	Shareholders'
	ordinary share	ordinary share	Equity
			(US\$)
Balances as at January 1, 2020	253,600,214	39,820,586	2,934
Issuance of Shares	11,032,980	–	110
Repurchase and/or retirement of Shares	–	–	–
	<u>264,633,194</u>	<u>39,820,586</u>	<u>3,044</u>
Balances as at December 31, 2020	<u>264,633,194</u>	<u>39,820,586</u>	<u>3,044</u>

	Fiscal year ended December 31, 2021		
	Class A	Class B	Shareholders'
	ordinary share	ordinary share	Equity
			(US\$)
Balances as at January 1, 2021	264,633,194	39,820,586	3,044
Issuance of Shares	6,033,212	–	60
Repurchase and/or retirement of Shares	(17)	–	(0)
	<u>270,666,389</u>	<u>39,820,586</u>	<u>3,104</u>
Balances as at December 31, 2021	<u>270,666,389</u>	<u>39,820,586</u>	<u>3,104</u>

	Nine months ended September 30, 2022		
	Class A	Class B	Shareholders'
	ordinary share	ordinary share	Equity
			(US\$)
Balances as at January 1, 2022	270,666,389	39,820,586	3,104
Issuance of Shares	2,035,728	–	20
Repurchase and/or retirement of Shares	–	–	–
	<u>272,702,117</u>	<u>39,820,586</u>	<u>3,125</u>
Balances as at September 30, 2022	<u>272,702,117</u>	<u>39,820,586</u>	<u>3,125</u>

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Changes in the Share Capital of Our Significant Subsidiaries

The following alterations in the share capital of our Significant Subsidiaries have taken place within the two years immediately preceding the date of this document:

1. On May 12, 2021, the registered capital of Shanghai Financing Guarantee was increased from RMB300,000,000 to RMB800,000,000;
2. On October 8, 2021, the registered capital of Shanghai Financing Guarantee was increased from RMB800,000,000 to RMB1,300,000,000;
3. On September 16, 2021, the registered capital of Fuzhou Microcredit was increased from RMB500,000,000 to RMB1,000,000,000;
4. On December 17, 2021, Fuzhou Microcredit received capital injection of RMB4,000,000,000 and its registered capital was increased from RMB1,000,000,000 to RMB5,000,000,000. The registration was completed on January 5, 2022;
5. On January 24, 2022, the registered capital of Fuzhou Financing Guarantee was increased from RMB1,600,000,000 to RMB1,900,000,000;
6. On March 9, 2022, the registered capital of Shanghai Qiyu was increased from RMB200,000,000 to RMB4,303,039,074;
7. On March 28, 2022, the registered capital of Fuzhou Financing Guarantee was increased from RMB1,900,000,000 to RMB2,400,000,000;
8. On May 25, 2022, the registered capital of Fuzhou Financing Guarantee was increased from RMB2,400,000,000 to RMB3,700,000,000;
9. On July 29, 2022, the registered capital of Fuzhou Financing Guarantee was increased from RMB3,700,000,000 to RMB4,600,000,000; and
10. On August 2, 2022, the registered capital of Shanghai Financing Guarantee was decreased from RMB1,300,000,000 to RMB300,000,000.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material, as well as contracts required to be disclosed pursuant to the Hong Kong Stock Exchange’s Guidance Letter HKEX-GL94-18 and Listing Decision HKEX-LD43-3.

1. A voting proxy agreement (股東表決權委託協議) dated June 1, 2022 and executed by Shanghai Qiyue Information & Technology Co., Ltd. (上海淇玥信息技術有限公司) (“**Shanghai Qiyue**”), Shanghai Qibutianxia Information Technology Co., Ltd. (上海奇步天下信息技術有限公司) (“**Shanghai Qibutianxia**”) and Shanghai Qiyu Information & Technology Co., Ltd. (上海淇毓信息科技有限公司) (“**Shanghai Qiyu**”), pursuant to which Shanghai Qibutianxia appointed Shanghai Qiyue or its designated person as Shanghai Qibutianxia’s attorney-in-fact to exercise all of its rights as a shareholder of Shanghai Qiyu.
2. A voting proxy agreement (股東表決權委託協議) dated June 1, 2022 and executed by Shanghai Qiyue, Shanghai Qibutianxia, and Fuzhou 360 Financing Guarantee Co., Ltd. (福州三六零融資擔保有限公司) (“**Fuzhou Financing Guarantee**”), pursuant to which Shanghai Qibutianxia appointed Shanghai Qiyue or its designated person as Shanghai Qibutianxia’s attorney-in-fact to exercise all of its rights as a shareholder of Fuzhou Financing Guarantee.
3. A voting proxy agreement (股東表決權委託協議) dated June 1, 2022 and executed by Shanghai Qiyue, Beijing Zhongxin Baoxin Technology Co., Ltd. (北京中鑫保信科技有限公司) (“**Beijing Zhongxin**”), Beijing Qicaitianxia Technology Co., Ltd. (北京奇才天下科技有限公司) (“**Beijing Qicaitianxia**”) and Shanghai 360 Financing Guarantee Co., Ltd. (上海三六零融資擔保有限公司) (“**Shanghai Financing Guarantee**”), pursuant to which Beijing Zhongxin and Beijing Qicaitianxia appointed Shanghai Qiyue or its designated person as their attorney-in-fact to exercise all of their rights as shareholders of Shanghai Financing Guarantee.
4. An equity interest pledge agreement (股權質押協議) dated June 1, 2022 and executed by Shanghai Qiyue, Shanghai Qibutianxia and Shanghai Qiyu, pursuant to which Shanghai Qibutianxia pledged all of its equity interests in Shanghai Qiyu in favor of Shanghai Qiyue.
5. An equity interest pledge agreement (股權質押協議) dated June 1, 2022 and executed by Shanghai Qiyue, Shanghai Qibutianxia and Fuzhou Financing Guarantee, pursuant to which Shanghai Qibutianxia pledged all of its equity interests in Fuzhou Financing Guarantee in favor of Shanghai Qiyue.

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6. An equity interest pledge agreement (股權質押協議) dated June 1, 2022 and executed by Shanghai Qiyue, Beijing Zhongxin, Beijing Qicaitianxia and Shanghai Financing Guarantee, pursuant to which Beijing Zhongxin and Beijing Qicaitianxia pledged all of their equity interests in Shanghai Financing Guarantee in favor of Shanghai Qiyue.
7. An exclusive business cooperation agreement (獨家業務合作協議) dated June 1, 2022 and executed by Shanghai Qiyue and Shanghai Qiyu, pursuant to which Shanghai Qiyue agreed to provide exclusive business, technical and consultation services, amongst others, to Shanghai Qiyu in exchange for a service fee.
8. An exclusive business cooperation agreement (獨家業務合作協議) dated June 1, 2022 and executed by Shanghai Qiyue and Fuzhou Financing Guarantee, pursuant to which Shanghai Qiyue agreed to provide exclusive business, technical and consultation services, amongst others, to Fuzhou Financing Guarantee in exchange for a service fee.
9. An exclusive business cooperation agreement (獨家業務合作協議) dated June 1, 2022 and executed by Shanghai Qiyue and Shanghai Financing Guarantee, pursuant to which Shanghai Qiyue agreed to provide exclusive business, technical and consultation services, amongst others, to Shanghai Financing Guarantee in exchange for a service fee.
10. An exclusive option agreement (獨家購買權協議) dated June 1, 2022 and executed by Shanghai Qiyue, Shanghai Qibutianxia and Shanghai Qiyu, pursuant to which Shanghai Qibutianxia irrevocably granted Shanghai Qiyue an exclusive option to purchase all or part of its equity interests in Shanghai Qiyu and Shanghai Qiyu irrevocably granted Shanghai Qiyue an exclusive option to purchase all or part of Shanghai Qiyu's assets.
11. An exclusive option agreement (獨家購買權協議) dated June 1, 2022 and executed by Shanghai Qiyue, Shanghai Qibutianxia and Fuzhou Financing Guarantee, pursuant to which Shanghai Qibutianxia irrevocably granted Shanghai Qiyue an exclusive option to purchase all or part of its equity interests in Fuzhou Financing Guarantee and Fuzhou Financing Guarantee irrevocably granted Shanghai Qiyue an exclusive option to purchase all or part of Fuzhou Financing Guarantee's assets.
12. An exclusive option agreement (獨家購買權協議) dated June 1, 2022 and executed by Shanghai Qiyue, Beijing Zhongxin, Beijing Qicaitianxia and Shanghai Financing Guarantee, pursuant to which Beijing Zhongxin and Beijing Qicaitianxia irrevocably granted Shanghai Qiyue an exclusive option to purchase all or part of their equity interests in Shanghai Financing Guarantee and Shanghai Financing Guarantee irrevocably granted Shanghai Qiyue an exclusive option to purchase all or part of Shanghai Financing Guarantee's assets.

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13. A loan agreement (借款協議) dated June 1, 2022 between Shanghai Qiyue, Shanghai Qibutianxia and Shanghai Qiyu, pursuant to which Shanghai Qiyue agreed to provide interest-free loans to Shanghai Qibutianxia for the purposes of Shanghai Qiyu’s business operation and development, including but not limited to injecting such funds to the registered capital of Shanghai Qiyu.
14. A loan agreement (借款協議) dated June 1, 2022 between Shanghai Qiyue, Shanghai Qibutianxia and Fuzhou Financing Guarantee, pursuant to which Shanghai Qiyue agreed to provide interest-free loans to Shanghai Qibutianxia for the purposes of Fuzhou Financing Guarantee’s business operation and development, including but not limited to injecting such funds to the registered capital of Fuzhou Financing Guarantee.
15. A loan agreement (借款協議) dated June 1, 2022 between Shanghai Qiyue, Shanghai Qibutianxia, Shanghai Financing Guarantee, Beijing Zhongxin and Beijing Qicaitianxia, pursuant to which Shanghai Qiyue agreed to provide interest-free loans to Shanghai Qibutianxia for the purposes of Shanghai Financing Guarantee’s business operation and development, including but not limited to injecting such funds to the registered capital of Shanghai Financing Guarantee through Beijing Zhongxin and Beijing Qicaitianxia.
16. [REDACTED].

Our Intellectual Property Rights

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on trademark and trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of June 30, 2022, we had 54 registered trademarks and 63 registered trademarks pending approval in China, 68 registered patents and 900 patents pending approval in China, a number of which we consider material to our business and future development. We have 66 registered software copyrights and four copyrights of works in the PRC. We are also the registered holder of 360shuke.com and 43 domain names in China.

FURTHER INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

Disclosure of Interests

See “Major Shareholders” for disclosure of interests of Directors and executive officers.

Directors’ Service Contracts

We have entered into employment agreements with each of our Directors who is also an officer. See “Directors and Senior Management – Compensation – Employment Agreements and Indemnification Agreements”.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Directors' Remuneration

See "Directors and Senior Management – Compensation – Compensation of Directors and Executive Officers" for a discussion of Directors' remuneration.

Disclosures relating to Directors and Experts

Save as disclosed in this document:

- None of our Directors nor any of the persons listed in "– Other Information – Qualification of Experts" below is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities.
- None of our Directors nor any of the persons listed in "– Other Information – Qualification of Experts" below is materially interested in any contract or arrangement with us subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to our business as a whole.
- None of the persons listed in "– Other Information – Qualification of Experts" below has any shareholding in us or any of our Significant Subsidiaries or has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us or any of our Significant Subsidiaries.

Share Incentive Plans

See "Directors and Senior Management – Compensation – Share Incentive Plans" for details about our Share Incentive Plans.

OTHER INFORMATION

Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

See "Our Business – Legal Proceedings and Compliance" for further information.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Joint Sponsors

The Joint Sponsors made an application on behalf of our Company to the Listing Committee for the [REDACTED] of, and permission to [REDACTED], the Shares in issue, the Shares to be issued pursuant to the [REDACTED] (including the additional Shares which may be issued pursuant to the exercise of the [REDACTED]), and the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options, the vesting of or vested but outstanding RSUs, or other awards that have been or may be granted from time to time and the Shares to be issued after the conversion of our Class B ordinary shares into Shares without enhanced voting rights. All necessary arrangements have been made to enable such Shares to be [REDACTED].

Citigroup Global Markets Asia Limited and China International Capital Corporation Hong Kong Securities Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The fee payable to each of the Joint Sponsors is US\$500,000 and is payable by our Company.

No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2022 (being the date to which our latest audited consolidated financial statements were prepared).

Qualification of Experts

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this document:

Name	Qualification
Citigroup Global Markets Asia Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities as defined under the SFO

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants and Registered Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance (Cap. 588)
Shanghai iResearch Co., Ltd., China	Industry consultant
Commerce & Finance Law Offices	Legal adviser to Company as to PRC laws
Maples and Calder (Hong Kong) LLP	Legal adviser to Company as to Cayman Islands law

Consents of Experts

Each of the experts above has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Preliminary Expenses

Our Company did not incur any material preliminary expenses.

Promoter

Our Company has no promoter for the purpose of the Hong Kong Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Binding Effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

Bilingual Document

[REDACTED]

Miscellaneous

Save as disclosed in this document or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this document, within the two years immediately preceding the date of this document:

- to the best of our knowledge, neither we nor any of our Significant Subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
- no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Significant Subsidiaries;
- no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
- there is no arrangement under which future dividends are waived or agreed to be waived.

Our branch register of members will be maintained in Hong Kong by our [REDACTED]. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be [REDACTED].

APPENDIX V **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE ON DISPLAY**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The following documents, amongst others, were delivered to the Registrar of Companies in Hong Kong for registration together with this document:

- a copy of the [REDACTED];
- a copy of each of the material contracts referred to in the section headed “Statutory and General Information – Further Information About Our Business – Summary of Material Contracts” in Appendix IV to this document; and
- the written consents referred to in the section headed “Statutory and General Information – Other Information – Consents of Experts” in Appendix IV to this document.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at <http://ir.360shuke.com> for 14 days from the date of this document (both dates inclusive):

- the Memorandum and Articles of Association of our Company;
- our audited consolidated financial statements for the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022;
- the Accountant’s Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix IA;
- the report on review of Unaudited Condensed Consolidated Financial Statements of the Group as of and for the nine months ended September 30, 2022 from Deloitte Touche Tohmatsu, the text of which is set out in Appendix IB;
- the independent reporting accountants’ assurance report on the compilation of unaudited pro forma financial information from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II;
- the legal opinion issued by Commerce & Finance Law Offices, our PRC Legal Adviser, in respect of certain aspects of our Group;
- the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal adviser, summarizing certain aspects of Cayman Islands company law referred to in Appendix III to this document;
- the report issued by Shanghai iResearch Co., Ltd., China, a summary of which is set forth in the section headed “Industry Overview” of this document;

APPENDIX V

**DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES IN HONG KONG AND AVAILABLE ON DISPLAY**

- the material contracts referred to in the section headed "Statutory and General Information – Further Information About Our Business – Summary of Material Contracts" in Appendix IV to this document;
- the written consents referred to in the section headed "Statutory and General Information – Other Information – Consents of Experts" in Appendix IV to this document; and
- the Cayman Companies Act.