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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 001-38590

Cango Inc.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

8F, New Bund Oriental Plaza II
556 West Haiyang Road, Pudong New Area
Shanghai 200124

People's Republic of China
(Address of principal executive offices)

Yongyi Zhang, Chief Financial Officer

Telephone: +86 21 3183 5087

Email: ir@cangoonline.com

At the address of the Company set forth above

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Trade symbol	Name of each exchange on which registered
American Depositary Shares, each representing two Class A ordinary shares	CANG	New York Stock Exchange
Class A Ordinary Shares, par value US\$0.0001 per share*	N/A	New York Stock Exchange

* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares.

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

None
(Title of Class)

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

None
(Title of Class)

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

224,771,083 Class A ordinary shares were outstanding as of December 31, 2020
74,978,677 Class B ordinary shares were outstanding as of December 31, 2020

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

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

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

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

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

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

* Not for trading, but only in connection with the listing on the New York Stock Exchange of the American Depositary Shares

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CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Except where the context otherwise requires, references in this annual report to:

- the “Acquisition” are to our acquisition of an additional 50% of equity interest in Shanghai Chejia, which we completed at the end of September 2018; after the completion of the Acquisition, Shanghai Chejia became our wholly-owned consolidated subsidiary;
- “active dealers” are to dealers which have sold at least one car which is funded by a financing transaction we facilitate in the specified period;
- “ADSs” are to our American depositary shares, each of which represents two Class A ordinary shares, and “ADRs” are to the American depositary receipts that evidence our ADSs;
- “CAGR” are to compound annual growth rate;
- “Can Gu Long Shanghai” are to Can Gu Long (Shanghai) Information Technology Consultation Service Co., Ltd., a company established under the law of the PRC and our wholly-owned subsidiary;
- “car buyers” are to individuals who have purchased a car;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan, the Hong Kong Special Administrative Region and the Macao Special Administrative Region;
- “dealers” are to points of sale that are licensed to engage in retail automobile transactions;
- “Didi Chuxing” are to Xiaoju Kuaizhi Inc., a company organized under the laws of the Cayman Islands, and its affiliates;
- “exposure at risk” are to the amount of outstanding principal of specified financing transactions as of a specified date;
- “financial institutions” are to (i) banks and (ii) financing lease companies licensed by the Ministry of Commerce of the PRC;
- “financing transactions” are to loans and financing leases; financing transactions we facilitate include financing transactions funded by financial institutions and financing transactions funded by Shanghai Chejia; the “amount of financing transactions” refer to the principal amount of financing transactions we facilitated in a specified period;
- “lower-tier cities” are to cities in China that are not tier-one and tier-two cities;

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- “M1+ overdue ratio” are to (i) exposure at risk relating to financing transactions for which any installment payment is 30 to 179 calendar days past due as of a specified date, divided by (ii) exposure at risk relating to all financing transactions which remain outstanding as of such date, excluding amounts of outstanding principal that are 180 calendar days or more past due;
- “M3+ overdue ratio” are to (i) exposure at risk relating to financing transactions for which any installment payment is 90 to 179 calendar days past due as of a specified date, divided by (ii) exposure at risk relating to all financing transactions which remain outstanding as of such date, excluding amounts of outstanding principal that are 180 calendar days or more past due;
- “MYbank” are to Zhejiang E-Commerce Bank Co., Ltd., a limited liability company established under the laws of the PRC;
- “new car dealers” are to dealers that sell new cars to car buyers, including dealers that sell both new cars and used cars;
- “OEMs” are to automotive original equipment manufacturer;
- “ordinary shares” are to our Class A ordinary shares, par value US\$0.0001 per share, and Class B ordinary shares, par value US\$0.0001 per share;
- “registered dealers” are to dealers who are registered with our platform;
- “RMB” or “Renminbi” are to the legal currency of China;
- “SaaS” are to software as a service;
- “Shanghai Cango” are to Shanghai Cango Investment and Management Consultation Service Co., Ltd., a company established under the law of the PRC and our consolidated VIE;
- “Shanghai Chejia” are to Shanghai Chejia Financing Lease Co., Ltd. (formerly translated as “Shanghai Autohome Financing Lease Co., Ltd.”), a company organized under the law of the PRC and our wholly-owned subsidiary after the completion of the Acquisition;
- “tier-one and tier-two cities” refer to (i) tier-one cities in China, namely Beijing, Shanghai, Guangzhou and Shenzhen and (ii) tier-two cities in China, namely (a) Tianjin and Chongqing, (b) the provincial capital cities except for Guangzhou, Yinchuan, Xining and Lhasa and (c) several prefecture-level cities, namely, Qingdao, Foshan, Dalian, Ningbo, Suzhou, Wuxi, Xiamen, Dongguan and Wenzhou;
- “US\$,” “U.S. dollars,” or “dollars” are to the legal currency of the United States;

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- “we,” “us,” “our company” and “our” are to Cango Inc., its consolidated VIE and/or their respective subsidiaries, as the context requires; and
- “WeBank” are to Shenzhen Qianhai WeBank Co., Ltd., a limited liability company established under the laws of the PRC;
- “WP Fintech” are to Warburg Pincus Cango Fintech Investment Company Limited, a British Virgin Islands business company and one of our principal shareholders.

The translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.5250 to US\$1.00, the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2020. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. On April 16, 2021, the noon buying rate for Renminbi was RMB6.5203 to US\$1.00.

We listed our ADSs on the New York Stock Exchange under the symbol “CANG” on July 26, 2018.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the “safe harbor” provision under Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. These forward-looking statements relate to, among others:

- our goal and strategies;
- our expansion plans;
- our future business development, financial condition and results of operations;
- our expectations regarding demand for, and market acceptance of, our solutions and services;
- our expectations regarding keeping and strengthening our relationships with dealers, financial institutions, insurance brokers and companies, car buyers and other platform participants; and

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- general economic and business conditions.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

You should read these statements in conjunction with the risks disclosed in “Item 3. Key Information—D. Risk Factors” of this annual report and other risks outlined in our other filings with the Securities and Exchange Commission, or the SEC. Moreover, we operate in an emerging and evolving environment. New risks may emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we have referred to in this annual report, completely and with the understanding that our actual future results may be materially different from what we expect.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of comprehensive income data for the years ended December 31, 2018, 2019 and 2020 and the selected consolidated balance sheet data as of December 31, 2019 and 2020 have been derived from our audited consolidated financial statements included elsewhere in this annual report. We derived the following selected consolidated statements of comprehensive income data for the year ended December 31, 2016 and 2017 and selected consolidated balance sheet data as of December 31, 2016, 2017 and 2018, as set forth below, from our audited consolidated financial statements that are not included in this annual report.

You should read the selected consolidated financial data in conjunction with the financial statements and the related notes included elsewhere in this annual report and “Item 5. Operating and Financial Review and Prospects.” Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

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Selected Consolidated Statements of Comprehensive Income Data

	Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)					
Revenues						
Loan facilitation income and other related income	431,646	1,019,081	916,280	913,837	891,837	136,680
Leasing income	—	—	59,093	300,078	286,079	43,844
After-market services income	1,831	26,102	100,053	205,998	241,193	36,964
Automobile trading income	—	—	6,584	11,414	624,774	95,751
Others	802	7,021	9,403	8,742	8,549	1,310
Total revenues	434,280	1,052,204	1,091,414	1,440,069	2,052,432	314,549
Operating cost and expenses:						
Cost of revenue	170,044	386,054	430,059	539,267	1,098,121	168,294
Sales and marketing	39,537	114,145	167,244	192,811	195,894	30,022
General and administrative	34,550	101,277	151,076	236,551	265,691	40,719
Research and development	5,000	19,419	46,709	57,406	62,596	9,593
Net loss/(gain) on risk assurance liabilities	744	(38,867)	(354)	34,258	2,268	348
Provision for credit losses	—	156	19,960	56,479	109,565	16,792
Total operating cost and expenses	249,875	582,184	814,695	1,116,772	1,734,135	265,768
Income from operations	184,405	470,020	276,720	323,296	318,297	48,781
Interest and investment income	4,099	16,164	61,465	96,005	72,807	11,158
Income/(loss) from equity method investments	(9,988)	4,856	42,685	(926)	—	—
Fair value change of equity investment	—	—	—	41,582	3,315,476	508,119
Interest expense	(450)	(12,994)	(19,011)	(13,458)	(2,759)	(423)
Foreign exchange gain (loss), net	—	(25,403)	1,447	5,141	(8,848)	(1,356)
Other income, net	8,429	15,818	32,701	41,300	49,139	7,531
Other expenses	—	—	—	(5,121)	(838)	(128)
Net income before income taxes	186,495	468,460	396,007	487,819	3,743,274	573,682
Income tax expenses	(53,014)	(119,403)	(89,083)	(82,960)	(369,854)	(56,683)
Net income	133,481	349,057	306,924	404,859	3,373,420	516,999
Less: Net income attributable to the non-controlling interest shareholders	4,575	8,048	4,232	13,945	3,902	598
Net income attributable to Cango Inc.'s shareholders	128,906	341,010	302,692	390,914	3,369,518	516,401
Earnings per share attributable to ordinary shareholders and Series A-2 convertible preferred shareholder:						
Basic:	0.51	1.35				
Diluted:	0.51	1.35				
Earnings per Class A and Class B ordinary share:						
Basic			1.08	1.29	11.21	1.72
Diluted			1.08	1.29	11.09	1.70
Earnings per ADS (two ordinary shares equal to one ADS):						
Basic			2.17	2.59	22.43	3.44
Diluted			2.16	2.58	22.18	3.40
Weighted average shares used to compute earnings per share attributable to ordinary shareholders and Series A-2 convertible preferred shareholder: :						
Basic:	127,149,202	127,149,202				
Diluted:	252,831,716	252,831,716				
Weighted average shares used to compute earnings per Class A and Class B share:						
Basic			279,156,744	302,417,352	300,484,860	300,484,860
Diluted			280,873,806	303,283,658	303,900,645	303,900,645
Other comprehensive income, net of tax						
Unrealized gain/(loss) on available-for-sale securities		(2,464)	822	(147)	—	—
Reclassification of losses to net income		2,065	—	(276)	—	—
Foreign currency translation adjustment		—	109,029	10,401	(234,817)	(35,987)
Total comprehensive income, net of tax	133,481	348,659	416,776	414,836	3,138,603	481,012
Total comprehensive income attributable to non-controlling interests	4,575	8,048	4,232	13,945	3,902	598
Total comprehensive income attributable to Cango Inc.'s shareholders	128,906	340,611	412,544	400,892	3,134,701	480,414

Selected Consolidated Balance Sheet Data

	As of December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Cash and cash equivalents	44,989	803,271	2,912,901	2,002,315	1,426,900	218,682
Restricted cash – current	1,011	10,060	298,900	970,994	9,693	1,486
Short-term investments	106,000	62,380	265,870	597,266	4,342,357	665,495
Accounts receivable, net	469	85,595	86,514	148,563	141,594	21,700
Finance receivables, net	—	832	5,421	9,104	20,106	3,081
Short-term finance leasing receivable, net	—	—	1,123,704	1,661,082	2,035,398	311,938
Short-term contract asset	—	—	—	20,688	364,619	55,880
Prepayment and other current assets	11,024	144,858	61,273	117,445	558,361	85,573
Restricted cash – non-current	—	319,352	668,628	873,674	878,299	134,605
Long-term investments	185,800	191,003	292,099	547,889	—	—
Goodwill	—	—	145,064	145,064	145,064	22,232
Long-term contract asset	—	—	—	11,655	281,374	43,122
Deferred tax assets	54,889	67,774	100,195	100,668	170,951	26,199
Long-term finance lease receivables – non-current, net	—	—	1,282,457	1,448,958	1,454,500	222,912
Total assets	714,857	1,996,868	7,301,140	8,736,574	12,145,933	1,861,446
Short-term debts	—	—	660,000	1,439,750	355,817	54,531
Long-term debts – current	—	—	467,194	863,419	1,228,784	188,319
Accrued expenses and other current liabilities	85,854	328,523	211,459	278,690	324,734	49,768
Risk assurance liabilities	149,788	129,935	173,210	259,952	460,829	70,625
Long-term borrowings – non-current	189,573	175,000	472,793	301,668	977,791	149,853
Total liabilities	503,769	736,860	2,045,773	3,244,914	3,770,723	577,889
Total mezzanine equity	3,941,846	3,941,846	—	—	—	—
Total shareholders' (deficit)/equity	(3,730,759)	(2,681,838)	5,255,367	5,491,660	8,375,209	1,283,557

Non-GAAP Measures

We use adjusted net income, adjusted net income per ADS-basic and adjusted net income per ADS-diluted, which are non-GAAP financial measures, in evaluating our operating results and for financial and operational decision-making purposes. We believe that adjusted net income, adjusted net income per ADS-basic and adjusted net income per ADS-diluted help identify underlying trends in our business by excluding the impact of share-based compensation expenses relating to the Share Incentive Plan 2018, or the ESOP Expenses, which are non-cash charges. We believe that adjusted net income, adjusted net income per ADS-basic and adjusted net income per ADS-diluted 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.

Adjusted net income, adjusted net income per ADS-basic and adjusted net income per ADS-diluted 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, and when assessing our operating performance, cash flows or our liquidity, investors should not consider them in isolation, or as a substitute for net income, cash flows provided by operating activities or other consolidated statements of operation and cash flow data prepared in accordance with U.S. GAAP.

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We mitigate these limitations by reconciling the non-GAAP financial measures to the most comparable U.S. GAAP performance measure, all of which should be considered when evaluating our performance. The following table reconciles our adjusted net income in the years presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net income:

	For the year ended December 31,					
	2016 (Unaudited) RMB	2017 (Unaudited) RMB	2018 (Unaudited) RMB	2019 (Unaudited) RMB	2020 (Unaudited) RMB	(Unaudited) US\$
Net income	133,481	349,057	306,924	404,859	3,373,420	516,999
Add: ESOP Expenses ⁽¹⁾	—	—	33,411	82,266	78,755	12,070
Adjusted net income	133,481	349,057	340,335	487,125	3,452,175	529,069
Less: Net income attributable to the noncontrolling interest shareholders	4,575	8,048	4,232	13,945	3,902	598
Adjusted net income attributable to Congo Inc.'s ordinary shareholders	128,906	341,010	336,103	473,180	3,448,273	528,471
Adjusted net income per ADS-basic⁽²⁾	1.02	2.70	2.41	3.13	22.95	3.52
Adjusted net income per ADS-diluted⁽²⁾	1.02	2.70	2.39	3.12	22.69	3.48
Weighted average ADS outstanding—basic	63,574,601	63,574,601	139,578,372	151,208,676	150,242,430	150,242,430
Weighted average ADS outstanding—diluted	126,415,858	126,415,858	140,436,903	151,641,829	151,950,322	151,950,322

(1) ESOP Expenses are allocated in operating cost and expenses as follows:

	For the year ended December 31,					
	2016 (Unaudited) RMB	2017 (Unaudited) RMB	2018 (Unaudited) RMB	2019 (Unaudited) RMB	2020 (Unaudited) RMB	(Unaudited) US\$
	(in thousands)					
Cost of revenue	—	—	1,370	3,373	3,075	471
Sales and marketing	—	—	7,117	17,523	16,003	2,453
General and administrative	—	—	23,187	57,093	55,591	8,520
Research and development	—	—	1,737	4,278	4,085	626
ESOP Expenses	—	—	33,411	82,266	78,755	12,070

(2) Each ADS represents two ordinary shares.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Our Industry and Business

We have a limited operating history in an emerging and fast growing market. Our historical financial and operating performance may not be indicative of our future prospects and results of operations.

The automotive and mobility markets, including the automotive finance market, in the PRC are relatively new and at an early stage of development. While such markets have undergone significant growth in the past few years, there is no assurance that the markets can continue to grow as rapidly. As part of our business, we offer automobile trading solutions, automotive financing facilitation services and after-market services facilitation to various participants in the automotive transaction value chain, including dealers, financial institutions, insurance brokers and companies, car buyers and other industry participants. Helping more industry participants to recognize the value of our services is critical to increasing the number and amount of financing transactions, automobile trading transactions and insurance transactions on our platform and to the success of our business.

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We launched our business in 2010 and have a limited operating history. We may not have sufficient experience to address the risks to which companies operating in new or rapidly evolving markets may be exposed. We have limited experience in several aspects of our business operation, such as automobile trading solutions, after-market services facilitation and the development of long-term relationships with platform participants, such as dealers, financial institutions, insurance brokers and companies and car buyers. The laws and regulations governing the automotive finance industry in the PRC are still at a nascent stage and subject to further changes and interpretation. As the market, the regulatory environment or other conditions evolve, our existing solutions and services may not continue to deliver the expected business results. As our business develops or in response to competition, we may continue to introduce new services, make adjustments to our existing services, our credit assessment model, our business model or our operations in general. For example, we started to significantly expand our automobile trading solutions in the third quarter of 2020. In connection with such services, we purchase cars from OEMs based on orders from dealers and on-sell cars to the relevant dealers. Our abilities to retain dealers, financial institutions, insurance brokers and companies and other platform participants and to attract new platform participants are also critical to our business. Any significant change to our business model or failure to achieve the intended business results may have a material and adverse impact on our financial condition and results of operations. Therefore, it may be difficult to effectively assess our future prospects.

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 and our limited operating history. These risks and challenges include our ability to, among other things:

- offer automotive financing solutions to a growing number of car buyers;
- maintain and enhance our relationships and business collaboration with dealers, financial institutions, insurance brokers and companies and other platform participants;
- charge competitive service fees to platform participants while driving the growth and profitability of our business;
- maintain low overdue ratios of financing transactions we facilitate;
- comply with complex and evolving laws and regulations;
- improve our operational efficiency;

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- attract, retain and motivate talented employees, particularly sales and marketing, risk management as well as research and development personnel 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 collected across our system;
- navigate economic conditions and fluctuations;
- successfully implement our business strategies and offer new services, such as automobile trading solutions; and
- defend ourselves against legal and regulatory actions, such as actions involving intellectual property or data privacy claims.

The COVID-19 pandemic has adversely affected, and may continue to adversely affect our results of operations.

The COVID-19 pandemic significantly affected the Chinese economy in the first half of 2020. In an effort to halt the COVID-19 pandemic, the PRC government placed significant restrictions on travel within China and closed certain businesses, and governments outside of China have halted or sharply curtailed the movement of people, goods and services to and from China since late January 2020. Moreover, the COVID-19 outbreak has become a global pandemic and affected regions outside of China, such as Europe and North America. The COVID-19 pandemic adversely affected our results of operations in the first half of 2020. Our revenue decreased from RMB688.0 million for the first half of 2019 to RMB520.1 million for the first half of 2020, which was primarily due to a decrease in the amount of financing transactions facilitated by us. We also experienced an uptick in delinquency rates. M1+ and M3+ overdue ratios were 1.59% and 0.84%, respectively, as of June 30, 2020, as compared to 0.85% and 0.40%, respectively, as of December 31, 2019.

Our business has experienced substantial recovery since the third quarter of 2020. Nonetheless, concerns about the COVID-19 outbreak and its potential impact on the Chinese and global economy have created uncertainty about the overall demand for automobiles, which could have negative implications for automotive and mobility markets. While we continue to assess the impact from the COVID-19 pandemic, we are unable to accurately predict the full impact of COVID-19 on our business, results of operations, financial position and cash flows due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, additional actions that may be taken by governmental authorities, as well as the further impact on dealers, financial institutions, insurance brokers and companies, car buyers and other industry participants.

We may not be able to effectively manage our growth, control our expenses or implement our business strategies, in which case we may be unable to maintain high quality services or compete effectively.

We experienced fluctuations in our revenue growth historically. Our revenues increased by 31.9% from RMB1,091.4 million in 2018 to RMB1,440.1 million in 2019. Primarily due to a change in our dealer coverage model and conditions in the automotive transaction market, we experienced lower year-on-year revenue growth and a net income decline in 2018 as compared to 2017. In addition, the COVID-19 pandemic had an adverse impact on our business, results of operations and financial condition for the first half of 2020. Despite the impact of the COVID-19 pandemic, we experienced year-on-year revenue growth in 2020 due to the recovery of the automotive market in the second half of 2020 and the significant expansion of our automotive transaction services since the third quarter of 2020. We believe that our growth and expansion will depend on the macro-economic environment, as well as our ability to develop new sources of revenue, attract new car buyers, collaborate with additional financial institutions, retain and expand our dealer network, maintain and grow our relationships with OEMs and capture growth opportunities in new geographies, implement our marketing strategies and compete against our existing and future competitors. There can be no assurance that we will achieve any of the above.

Our after-market services facilitation revenues increased by 17.1% from RMB206.0 million in 2019 to RMB241.2 million (US\$37.0 million) in 2020. Our after-market services are currently comprised of facilitating the sale of insurance policies from insurance brokers or companies. There can be no assurance that such level of revenue growth will be sustainable or achieved at all in the future. If car buyers may find the pricing of our after-market services to be unattractive or are otherwise dissatisfied with our after-market services, our business, results of operations and financial condition would be materially and adversely affected.

To manage our growth and expansion, and to maintain profitability, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including improving our technology infrastructure as well as accounting and other internal management systems. We will also need to further expand, train, manage and motivate our workforce and manage our relationships with platform participants. All of these endeavors involve risks and will require substantial management efforts and skills and significant additional expenditures. Our further expansion may divert our management, operational or technological resources from our existing business operations. In addition, our expansion may require us to penetrate into new cities in China, where we may have difficulty in satisfying local market demands and regulatory requirements. We cannot assure you that we will be able to successfully maintain our growth rate or implement our future business strategies effectively, and failure to do so may materially and adversely affect our business, financial condition, results of operations and future prospects.

We may not be able to successfully expand or maintain or effectively manage relationships with our network of dealers.

As of December 31, 2020, we had a network of 48,487 registered dealers across China. Our extensive dealer network is a foundation of our platform, and we closely collaborate with our registered dealers in providing services to financial institutions and car buyers. We plan to expand our dealer network, including by further penetrating our existing markets and expanding our geographic coverage. As China is a large and diverse market, business practices and demands may vary significantly by region and our experience in the markets in which we currently operate may not be applicable in other parts of China. As a result, we may not be able to leverage our experience to expand our dealer network into other parts of China. Furthermore, our efforts to expand into new geographical markets and attract new dealers to our platform may impose considerable burden on our sales, marketing and general managerial resources. If we are unable to manage our expansion efforts effectively, if our expansion efforts take longer than planned or if our costs for these efforts exceed our expectations, our results of operations may be materially and adversely affected.

Our relationships with our registered dealers are not exclusive, and there can be no assurance that they will maintain their level of participation on our platform. Dealers may find the amount of commissions offered by us or financial institutions to be unattractive. We also offer various solutions and services to dealers, including operating an automobile trading platform to source cars for dealers, facilitate car trading amongst dealers and source car buyers online to facilitate purchases from our registered dealers. However, our registered dealers may not utilize these solutions and services or such solutions and services may not bring the expected benefits to dealers. Dealer participation on our platform may also be affected by various factors that are beyond our control, including the decrease in popularity of the car models offered by our registered dealers. A decrease in the number of car buyers referred by our registered dealers or a reduced level of dealers' utilization of our other solutions and services could materially and adversely affect our business, financial condition and results of operations.

We manage our dealer network through three models, namely self-operated sales model, dealer financial manager model and sales agent model. Under the self-operated sales model, our in-house sales team is responsible for explaining the terms of automotive financing solutions to prospective car buyers and assisting them to complete credit applications. Under the other two models, which collectively accounted for 5.1% of the number of registered dealers in our dealer network as of December 31, 2020, we rely on dealer financial managers, who are employees of dealers, and third-party sales agents for direct interaction with prospective car buyers. Each of such dealers and third-party sales agents may collaborate with multiple providers of automotive financing solutions, and they may promote automotive financing solutions offered by our competitors more actively than ours. Furthermore, dealer financial managers and sales agents may misrepresent or omit key terms of our automotive financing solutions or otherwise fail to meet the expected quality and service standards, which would harm our reputation. Our recourse against dealers and sales agents may be limited in the event their misconduct or negligence has caused us harm, and we may encounter significant difficulties in enforcing our contractual rights.

Since dealers and sales agents do not bear credit risk, they may refer prospective car buyers without regard to such individuals' creditworthiness. For example, they may refer us prospective car buyers who have been turned down by other financing solutions providers, and such prospective car buyers may be of poor credit quality. Certain dealers and sales agents may even assist fraudulent car buyers in preparing credit applications. If we fail to detect prospective car buyers with poor credit quality or fraudulent car buyers who are referred by dealers and sales agents, we may experience higher overdue ratios and/or suffer damage in our relationships with financial institutions. To manage such risk, we monitor our registered dealers and sales agents on an ongoing basis, identify parties associated with higher levels of delinquency and terminate those which we believe present significant credit risk to us. However, such risk management policy may not be effective and may also contribute to significant turnovers among our registered dealers and sales agents. In the fourth quarter of 2020, we ceased collaboration with approximately 1,725 registered dealers. Significant turnovers may require us to devote considerable resources in identifying and screening new dealers and/or sales agents, which could have an adverse impact on our operational efficiency.

Since we implemented a change in our dealer coverage model in 2018, our sales team has been covering a significant number of dealers that were previously covered by dealer financial managers. In contrast to dealer financial managers, we are able to directly control and communicate with our sales team, which is expected to execute our sales strategy more effectively and deliver higher quality services to car buyers. However, there can be no assurance that such approach will deliver the expected outcome.

Our success depends on our ability to attract prospective car buyers.

In 2019 and 2020, the amount of financing transactions we facilitated was RMB28.1 billion and RMB27.7 billion (US\$4.2 billion), respectively. The growth of our automotive financing facilitation business depends on our ability to attract prospective car buyers. In order to expand our base of car buyers, we must continue to invest significant resources in the development of new solutions and services and build our relationships with financial institutions, dealers, insurance brokers and companies and other platform participants. Our ability to successfully launch, operate and expand our solutions and services and to improve user experience to attract prospective car buyers depends on many factors, including our ability to anticipate and effectively respond to changing interests and preferences of car buyers, anticipate and respond to changes in the competitive landscape, and develop and offer solutions and services that address the needs of car buyers on our platform. If our efforts in these regards are unsuccessful, our base of car buyers, and the amount of financing and other transactions we facilitate to them, may not increase at the rate we anticipate, and it may even decrease. As a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

In addition, in order to attract prospective car buyers, we must also devote significant resources to enhancing the experience of car buyers on our platform on an ongoing basis. We must enhance the functionality and ensure the reliability of our platform. We must also continually enhance our speed for processing credit applications without compromising our risk management function. If we fail to provide superior customer service or address complaints of car buyers on our platform in a timely manner, we may fail to attract prospective car buyers as to our solutions and services, the number of financing transactions we facilitate may decline.

In the meantime, we also seek to maintain our relationships with existing car buyers and cross-sell new solutions and services, such as insurance and wealth management products. However, there can be no assurance that we will be able to maintain or deepen such relationships.

We rely on a limited number of financial institutions to fund the financing transactions we facilitate and any adverse change in our relationships with such financial institutions may materially and adversely impact our business and results of operations.

We rely on a limited number of financial institutions to fund financing transactions to car buyers. As of December 31, 2020, we were in collaboration with 12 third-party financial institutions. In 2020, the amount of financing transactions we facilitated was RMB27.7 billion (US\$4.2 billion), 98.1 % of which was funded by third-party financial institutions. The availability of funding from financial institutions depends on many factors, some of which are out of our control. Financial institutions may find our services, such as credit origination, credit assessment or delinquent asset management, to be ineffective, or our service fees to be too expensive. In addition, regardless of our risk management efforts, financing transactions we facilitate may nevertheless be considered riskier and may have a higher overdue ratio than financing transactions funded to car buyers with more established credit histories by traditional financial institutions. We have relied on, and we may continue to rely on, three financial institutions, WeBank, MYbank and Bank of Shanghai, to arrange funding for a substantial portion of financing transactions we facilitate. In 2020, 35.8%, 35.5% and 13.1% of the amount of financing transactions we facilitate was respectively funded (i) under the co-partnership model, in which we partner with WeBank to facilitate financing transactions with funding provided by WeBank and other financial institutions, (ii) by MYbank under the direct partnership model and (iii) by Bank of Shanghai under the direct partnership model. In 2020, revenues attributable to our collaborations with WeBank, MYbank and Bank of Shanghai were RMB290.7 million (US\$44.5 million), RMB459.2 million (US\$70.4 million) and RMB35.3 million (US\$5.4 million), which represented 32.6%, 51.5% and 4.0% of our automotive financing facilitation revenues, respectively. For further information as to our arrangements with these financial institutions, see “Item 4. Information on the Company—B. Business Overview—Our Relationships with Our Platform Participants—Financial Institutions.”

There can be no assurance that we will be able to rely on such funding arrangements in the future. For example, although we collaborated with several financial institutions under the co-partnership model as of December 31, 2020, any such financial institution may decide to reduce the amount that it will fund for financing transactions we facilitate in the future or discontinue such funding altogether. We continue to identify and expand the number of financial institutions to collaborate with, but there can be no assurance that the number of financial institutions we collaborate with will become increasingly diversified in the future. Given our current dependence on a relatively small number of financial institutions, if any such financial institution determines not to collaborate with us or limits the funding that is available for financing transactions we facilitate, or if any such financial institution encounters liquidity issue in general, our business, financial condition and results of operations may be materially and adversely affected. In addition, many of our new business initiatives depend on our relationships with financial institutions. For example, we plan to broaden the offering of financing solutions that are subsidized by OEMs. Financial institutions may not fund such financing solutions in sufficient amounts, or at all, and our business, results of operations and financial condition would be materially and adversely affected.

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Certain financial institutions we collaborate with have limited operating history in automotive financing. Furthermore, our ability to collaborate with financial institutions may become subject to new regulatory limitations, as the laws and regulations governing the automotive finance industry and the commercial banking industry in the PRC continue to evolve. We may from time to time experience constraints as to the availability of funds from financial institutions, especially as our business continues to grow and the need for funding increases. Such constraints may affect user experience, including by limiting our ability to facilitate financing transactions. Such limitations may also restrain the growth of our business. Any prolonged constraint as to the availability of funds from financial institutions may also harm our reputation or result in negative perception of the services we offer, thereby decreasing the willingness of prospective car buyers to seek automotive financing solutions facilitated by us or the willingness of dealers and other platform participants to collaborate with us.

We may fail to maintain relationships with online automotive advertising platforms and to effectively manage such relationships.

We collaborate with leading online automotive advertising platforms to tap into the large user base of these platforms. Users who are interested in our automotive financing solutions are directed to our call center. Our call center staff further explains our solutions to the user and assists the user in finding a suitable car in our dealer network. We view online automotive advertising platforms as alternative channels to engage car buyers. Such platforms may enter into exclusive business collaboration with our competitors, or they may offer automotive financing solutions of their own and compete with our business. If we were unable to source car buyers through these online channels or effectively engage such car buyers, the value that our platform is able to bring to other participants such as dealers and financial institutions may be materially and adversely affected, and our business, financial condition and results of operations may become negatively impacted as a result.

OEMs may not continue to participate on our platform.

Some of the financing transactions we facilitate are part of OEM-sponsored subsidy programs. We enable collaboration between OEMs and financial institutions to design low-interest financing solutions for car buyers. In addition, as part of our automobile trading solutions, we purchase cars from OEMs to facilitate the sale of such cars to our registered dealers. We believe our collaboration with OEMs makes our platform even more attractive to car buyers and dealers, thereby enhancing the network effect. However, there can be no assurance that we will be able to build and grow our relationships with OEMs. OEMs may perceive us as a competitor of their affiliated automotive finance companies or prefer to collaborate with other automotive transaction service platforms. As a result, OEMs may reduce the amount of subsidies for low-interest financing solutions offered on our platform or even terminate such subsidies. We plan to broaden the offering of subsidized financing solutions through collaboration with foreign and sino-foreign joint venture OEMs as well as national banks. As the financing solutions will be marketed to prospective car buyers with stronger credit profiles, we expect to seize new market opportunities while improving our credit performance through such strategy. However, there can be no assurance that we will be able to successfully implement the strategy, and our business, results of operations and financial condition could be materially and adversely affected. OEMs may also decide not to sell any cars on acceptable terms or at all or limit the number or types of cars that are sold to us. Our failure to build and grow our relationships with OEMs could materially and adversely affect our business, financial condition and results of operations.

We operate in a market where the credit infrastructure is still at an early stage of development. Information that we receive from third parties concerning a prospective car buyer may be outdated, incomplete or inaccurate, which may compromise the accuracy of our credit assessment.

China's credit infrastructure is still at an early stage of development. The Credit Reference Center established by the People's Bank of China, or the PBOC, in 2002 has been the only credit reporting system in China. This centrally managed nationwide credit database operated by the Credit Reference Center only records limited credit information, such as tax payments, civil lawsuits, foreclosures and bankruptcies. Moreover, this credit database is only accessible to banks and a limited number of market players authorized by the Credit Reference Center and does not support sophisticated credit scoring and assessment. In 2015, the PBOC announced that it would open the credit reporting market to private sectors with a view to spurring competition and innovation, but it may be a long-term process to establish a widely-applicable, reliable and sophisticated credit infrastructure in the market we operate.

For the purpose of credit assessment, we obtain credit information from prospective car buyers, and with their authorization, obtain credit data from external parties to assess applicants' creditworthiness. We may not be able to source credit data from such external parties at a reasonable cost or at all. Such credit data may have limitations in measuring prospective car buyers' creditworthiness. If there is an adverse change in the economic condition, credit data provided by external parties may no longer be a reliable reference to assess an applicant's creditworthiness, which may compromise our risk management capabilities. As a result, our assessment of a car buyer's credit profile may not reflect that particular car buyer's actual creditworthiness because assessment may be based on outdated, incomplete or inaccurate information. There is also a risk that following our obtaining a car buyer's information, the car buyer may have:

- become delinquent in the payment of an outstanding obligation;
- defaulted on a pre-existing debt obligation;
- taken on additional debt, including pledging the car as collateral for such debt; or
- sustained other adverse financial events.

Such outdated, incomplete or inaccurate information could compromise the accuracy of our credit assessment model and adversely affect the effectiveness of our control over our overdue ratios, in which case our results of operations will be harmed.

We rely on our credit assessment model and credit assessment team in evaluating credit applications. Our current risk management system may not be able to exhaustively assess or mitigate all risks to which we are exposed.

Credit applications by our car buyers are evaluated based on credit assessment conducted by our credit assessment model, and our credit assessment team conduct a manual evaluation when necessary. Based on our credit assessment model, we automatically approved 40.9% of applications, and we automatically rejected approximately 4.3% of applications in 2020. Our credit assessment team, which was comprised of more than 40 experienced reviewers as of December 31, 2020, manually evaluates the rest of the applications. If our credit assessment model or our credit assessment team fail to perform effectively, our business and results of operations may be materially and adversely affected.

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Our credit assessment model builds on machine learning algorithms including logistic regression and gradient boost decision tree. While we rely on machine learning algorithms to refine our model and system, there can be no assurance that our application of such algorithms will continue to deliver the expected benefits. In addition, as we have a limited operating history, we may not have accumulated sufficient credit data to optimize our model and system. Even if we have sufficient credit data and our credit assessment model has been tailored for prospective car buyers on our platform for our current operation, such data and credit assessment model might not be effective as we continue to increase the amount of financing transactions we facilitate, expand the car buyer base and broaden our engagement efforts with car buyers generally through different channels in the future. If our system contains programming or other errors, if our model is ineffective or if the credit data we obtained is incorrect or outdated, our credit assessment abilities could be negatively affected, resulting in incorrect approvals or denials of credit applications.

We rely on our credit assessment team to evaluate a substantial portion of credit applications submitted by prospective car buyers. Our reviewers frequently exercise judgments based on their experience and knowledge, and such judgments are subject to errors. In addition, if we fail to retain experienced reviewers or effectively train new reviewers, we may be unable to either offer financing solutions to creditworthy car buyers or maintain low overdue ratios of financing transactions we facilitate. To improve our operational efficiency, we plan to enhance the level of automation in the credit assessment process. However, such change in the credit assessment process could lead to an increase in overdue ratios, which would materially and adversely impact our business and results of operations.

If we are unable to maintain low overdue ratios for financing transactions we facilitate, our business and results of operations may be materially and adversely affected. Historical overdue ratios for financing transactions we facilitated may not be indicative of future results.

We may not be able to maintain low overdue ratios for financing transactions we facilitate, and such overdue ratios may be significantly affected by economic downturns or general economic conditions beyond our control and beyond the control of individual car buyers. As a result of the COVID-19 pandemic, we experienced an uptick in delinquency rates. M1+ and M3+ overdue ratios were 1.59% and 0.84%, respectively, as of June 30, 2020, as compared to 0.85% and 0.40%, respectively, as of December 31, 2019. While M1+ and M3+ overdue ratios decreased to 0.98% and 0.42%, respectively, as of December 31, 2020, we cannot assure you that we will be able to maintain low overdue ratios in the future or that the overdue ratios as of December 31, 2020 are indicative of our future credit performance. Overdue ratios for financing transactions we facilitated may deteriorate over time or as our business volume expands, and overdue ratios are also affected by macroeconomic conditions. The way how car buyers' delinquencies affects our results of operations depends on the funding arrangement for the relevant financing transactions.

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We are not obligated to bear credit risk for financing transactions funded by certain financial institutions. However, an increased level of credit losses suffered by such financial institutions with respect to financing transactions we facilitate would harm our business relationship with them. As of December 31, 2020, the total outstanding balance of financing transactions funded under such arrangements was RMB15.9 billion (US\$2.4 billion), representing 36.5% of the total outstanding balance of financing transactions we facilitated.

Under our arrangements with certain other financial institutions, we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. As of December 31, 2020, the total outstanding balance of financing transactions funded by financial institutions under such arrangements was RMB25.8 billion (US\$4.0 billion), representing 59.3% of the total outstanding balance of financing transactions we facilitated. We may increase the proportion of financing transactions funded under risk-bearing arrangements in the future. At the inception of each financing transaction facilitated under such arrangements, we recognize risk assurance liabilities at fair value. We recognize additional risk assurance liabilities when the car buyer's default is probable. Accordingly, an increase in overdue ratios of financing transactions for which we are obligated to bear credit risk could have a material adverse impact on our results of operations. Our risk assurance liabilities were RMB460.8 million (US\$70.6 million) as of December 31, 2020, and the amount of performed risk assurance liabilities was RMB150.3 million (US\$23.0 million) in 2020. Furthermore, our fair value estimation of risk assurance liabilities requires a significant degree of judgment and may not fully reflect the credit quality of the relevant financing transactions. We will incur net loss on risk assurance liabilities to the extent the credit quality of such financing transactions is worse than our estimate at inception.

We record financing lease receivables in relation to financing leases funded by Shanghai Chejia on our consolidated balance sheet. As such, we bear credit risk as to such financing leases, and we recognize provision for credit losses in our results of operations. Any increase in overdue ratios could materially and adversely affect our business, results of operations and financial condition.

Collection and recovery efforts by our in-house team may become less effective and may also subject us to regulatory risks and reputational risks.

We utilize our in-house team to collect repayment and recover car collaterals. The effectiveness of our collection and recovery efforts is critical to our business. We are not obligated to bear credit risk for financing transactions funded by certain financial institutions. However, failures in our collection and recovery efforts would harm our business relationship with such financial institutions. Under our arrangements with certain other financial institutions, we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. In addition, we record financing receivables in relation to financing leases funded by Shanghai Chejia on our balance sheet. As such, we bear credit risk as to such financing leases. Our failure to collect overdue repayments for the financing transactions we facilitate or recover the related car collaterals will have a material adverse effect on our business operations and financial position. As the amount of financing transactions we facilitate increases in the future, we may devote additional resources into our collection and recovery efforts. However, we cannot assure you that our collection and recovery efforts will be successful and that we would be able to utilize such additional resources in a cost-efficient manner.

We endeavor to ensure our collection and recovery efforts comply with the relevant laws and regulations in the PRC and we have established strict policies and implemented measures to ensure that our delinquent asset management personnel do not engage in aggressive or predatory practices. We cannot assure you that such personnel will not engage in any misconduct while performing their tasks. Any misconduct by our delinquent asset management personnel or the perception that our collection and recovery practices are considered to be aggressive, predatory or not compliant with the relevant laws and regulations in the PRC may result in harm to our reputation and business, which could further undermine our ability to collect repayments or recover cars from car buyers in default, lead to a decrease in the willingness of prospective car buyers to apply for and utilize financing transactions we facilitate, or result in fines and penalties being imposed by the relevant regulatory authorities, any of which may have a material adverse effect on our results of operations.

The service fees for our automotive financing facilitation services may decline in the future, and any material decrease in such service fees could harm our business, financial condition and results of operations.

We generate a substantial portion of our revenue from automotive financing facilitation services. Any material decrease in our service fees from automotive financing facilitation services would have a substantial impact on our revenue and profit margin. The service fees we charge financial institutions could be affected by a variety of factors, including the competitive landscape of the automotive finance industry and regulatory requirements. Our service fees from financial institutions may also be affected by a change over time in the mix of the types of services we offer. Our competitors may also offer more attractive service fees, which may require us to reduce our service fees to compete effectively.

In addition, our financing facilitation service fees are sensitive to many macroeconomic factors beyond our control, such as inflation, recession, the state of the credit markets, changes in market interest rates, global economic disruptions, unemployment and fiscal and monetary policies. In the event that the amount of service fees we charge financial institutions decrease significantly in the future and we are not able to adopt any cost control initiatives, our business, financial condition and results of operations will be harmed.

Our failure to facilitate the sale of cars that we purchased for dealers may have a material and adverse effect on our business, financial condition and results of operations.

We started to significantly expand our automobile trading solutions in the third quarter of 2020. In connection with such services, we purchase cars from OEMs based on orders from dealers and on-sell cars to the relevant dealers. We price cars based on our massive amount of transaction data associated with providing automotive financing solutions as well as data from facilitating other automotive transactions such as automobile trading between dealers to efficiently facilitate their sale. We have limited experience in the purchase of cars for sale to dealers, and there is no assurance that we will be able to do so effectively. Demand for the cars that we purchase could change significantly between the time an order is placed by a dealer and the expected time of sale to the dealer. Demand may be affected by new car launches, product defects, changes in consumer preference and other factors. Even though we require dealers to pay deposits when ordering cars, dealers may choose to forfeit deposits and decline to complete the purchases. As a result, we face inventory risk in connection with the cars purchased by us, including the risk of inventory obsolescence, a decline in values, and significant inventory write-downs or write-offs. We may also face increasing costs associated with the storage of these cars. Any of the above may materially and adversely affect our financial condition and results of operations.

The laws and regulations governing the automotive and mobility industries or other industries related to our business in the PRC are subject to further changes and interpretation. If our business practices or the business practices of third parties that we collaborate with are deemed to violate any PRC laws or regulations, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our business may be subject to a variety of laws and regulations in the PRC governing the automotive and mobility industries, including the automotive finance industry. The application and interpretation as to certain of these laws and regulations are currently ambiguous and may be interpreted and administered inconsistently between the different government authorities and local bureaus. The PRC government may also implement measures to control credit supply, which would affect the automotive finance industry.

As of December 31, 2020, we have not been subject to any material fines or other penalties under any PRC laws or regulations as to our business operations. However, if the PRC government tightens regulatory framework for the automotive and mobility industries in the future, and subject industry participants such as our company to new or specific requirements (including without limitation, capital requirements and licensing requirements), our business, financial condition and prospects would be materially and adversely affected. Compliance with existing and future rules, laws and regulations can be costly and if our practice is deemed to violate any existing or future rules, laws and regulations, we may face injunctions, including orders to cease non-compliant activities, and may be exposed to other penalties as determined by the relevant government authorities as well.

In September 2016, a local branch of administration for industry and commerce, or the AIC, in Changsha of Hunan province, which was merged into the local administration for market regulation afterwards, imposed an administrative penalty to our subsidiary in Hunan and held that the commissions paid by us to local dealers in connection with automotive financing facilitation constituted commercial bribes in violation of Anti-Unfair Competition Law of the People's Republic of China, which was promulgated by the National People's Congress in September 1993, and amended in November 2017 after the local AIC's penalty decision, or the Anti-Unfair Competition Law, and the Interim Provisions on Banning Commercial Bribery which was promulgated by the State Administration for Industry and Commerce in November 1996, or the Anti-Bribery Provisions. We surrendered RMB58,499.23 (US\$8,402.89) of alleged illegal income and paid a fine of RMB100,000.00 (US\$14,364.10) pursuant to the local AIC's decision. It is common practice in the PRC to pay dealers commissions for their services in connection with automotive financing facilitations and we have not received any similar penalty decisions from national or other local AICs where we have operations. Pursuant to the Anti- Unfair Competition Law, it is permitted to pay commissions to a middleman explicitly if the parties properly reflect such commissions in their financial records. To strengthen our compliance under the anti-bribery and fair competition laws, we have entered into written contracts with most local dealers to which we pay commissions in Hunan province and other regions in the PRC to document the terms of the dealers' services and the amount of commissions payable by us for such services, which have been reflected in our financial and tax accounts. However, there are substantial uncertainties regarding the implementation and interpretation of PRC laws and regulations in this regard, which are at the local governmental agencies' significant discretion; further, the Anti-Bribery Provisions and the Anti-Unfair Competition Law may be interpreted and administered inconsistently between different local AICs and such interpretations may change over time. See “—Risks Relating to Doing Business in China—There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.” There can be no assurance that we will not be subject to similar penalty due to allegations of violating relevant commercial bribery or unfair competition laws in the future by the local AIC in Changsha or other regions where we have operations or that we will be able to defend ourselves against such allegations. If we become subject to additional penalties for commissions paid to dealers, we may have to change our business model or cease part of our business, which could materially and adversely affect our business, results of operations or financial condition.

The Office of the Leading Group for Specific Rectification against Online Finance Risks and the Office of the Leading Group for Specific Rectification against P2P Online Lending Risks jointly issued the Circular on Regulating and Rectifying Cash Loan Business on December 1, 2017, or Circular 141. Among other things, Circular 141 provides restrictions on banks' collaboration with third parties in cash loan business. Pursuant to Circular 141, a bank may not outsource its core business functions, such as credit assessment and risk management, to third parties. Circular 141 also prohibits a bank participating in loan facilitation transactions from accepting credit enhancement services from a third party which has not obtained any license or approval to provide guarantees, including credit enhancement service in the form of a commitment to assume default risks. In addition, a bank may not permit its service provider in cash loan business to collect interest or fees from borrowers. There is still uncertainty as to the interpretation and application of the requirements in Circular 141. The opening paragraph of Circular 141 states, in relevant parts, that while the growth of cash loan business “has helped certain groups in society satisfy their needs for normal consumption credit to a certain extent, it has created several significant problems including, among other things, over-borrowing, repetitive credit approvals, improper collection practice, excessively high interest rates and intrusions on personal privacy, posing relatively large financial risk and societal risk.” While this statement suggests that the regulatory authorities are primarily concerned about abuses in the cash loan industry, it is uncertain whether any requirements in Circular 141 may be applicable to the automotive finance industry. In connection with our automotive financing facilitation business, we provide credit assessment service to financial institutions to assist them in making ultimate credit decisions. Under our arrangements with certain financial institutions, Shanghai Cango is obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. In addition, we charge car buyers fees for value-added services associated with purchasing a car with financing. If the relevant regulatory authorities determine that Circular 141 is applicable to the automotive finance industry, and our business is deemed to be in violation of Circular 141, we could be subject to penalties and/or be required to significantly change our business model.

We operate insurance brokerage business through Fushun Insurance Brokerage Co., Ltd., a subsidiary of our consolidated VIE. The insurance brokerage business is highly regulated in China, and the regulatory regime continues to evolve. The China Banking and Insurance Regulatory Commission, or the CBIRC, has extensive authority to supervise and regulate the insurance industry in China and has been enhancing its supervision over this industry in recent years, and new laws, regulations and regulatory requirements have been promulgated and implemented from time to time. We face challenges brought by these new laws, regulations and regulatory requirements, as well as significant uncertainties in the interpretation and application thereof. We might be required to spend significant time and resources in order to comply with any material changes in the regulatory environment, which could trigger significant changes to the competitive landscape of our insurance brokerage business and we may lose some or all of our competitive advantages during this process. Moreover, the CBIRC and its local branches may conduct various examinations and inspections on our insurance brokerage business operations from time to time, which could cover a broad range of aspects, including financial reporting, tax reporting, internal control and compliance with applicable laws, rules and regulations. If any non-compliance incidents in our insurance brokerage business operation are identified, we may be required to take certain rectification measures in accordance with applicable laws and regulations, or be subject to other administrative penalties.

On August 1, 2019, the General Office of the State Council promulgated the Guiding Opinions on Promoting the Well-regulated and Sound Development of the Platform Economy, or the Guiding Opinions on Platform Economy, which provide that the establishment of financial institutions, operation of financial activities, provision of financial information intermediary and transaction matching services shall be subject to entry administration according to the related laws and regulations. Due to the lack of further interpretations of the Guiding Opinions on Platform Economy, it is uncertain whether we will be deemed as providing “financial information intermediary and transaction matching services” under the Guiding Opinions on Platform Economy and be subject to entry administration. We cannot assure you that we will not be required in the future by the relevant governmental authorities to obtain additional approvals or licenses in this regard, and that we will be able to obtain such approvals or licenses in a timely manner if we are required to do. Our inability to obtain such approvals or licenses on a timely basis could have an adverse impact on our business.

Shanghai Cango may be deemed to operate financing guarantee business by the PRC regulatory authorities.

The State Council promulgated the Regulations on the Administration of Financing Guarantee Companies, or the Financing Guarantee Rules, on August 2, 2017 which became effective on October 1, 2017. Pursuant to the Financing Guarantee Rules, “financing guarantee” refers to the activities in which guarantors provide guarantee to the guaranteed parties as to loans, bonds or other types of debt financing, and “financing guarantee companies” refer to companies legally established and operating financing guarantee business. According to the Financing Guarantee Rules, the establishment of financing guarantee companies shall be subject to the approval by the competent government authority, and unless otherwise stipulated, no entity may operate financing guarantee business without such approval. If any entity violates these regulations and operates financing guarantee business without approval, the entity may be subject to penalties including ban or suspension of business, fines of RMB500,000 to RMB1,000,000, confiscation of illegal gains if any, and if the violation constitutes a criminal offense, criminal liability shall be imposed in accordance with the law.

On April 2, 2018, the CBIRC, together with several other governmental authorities, jointly adopted (i) the Administrative Measures for the Financing Guarantee Business Permit, (ii) Measures for Measuring the Outstanding Amount of Financing Guarantee Liabilities, (iii) Administrative Measures for the Asset Percentages of Financing Guarantee Companies and (iv) Guidelines on Business Cooperation between Banking Financial Institutions and Financing Guarantee Companies, or the Four Supporting Measures of the Financing Guarantee Rules, which further stipulates that “financing guarantee business” under the Four Supporting Measures of the Financing Guarantee Rules, among other things, includes “guarantee business related to loans,” which refers to the activities whereby a guarantor provides guarantee for loans, online lending, financial leasing, commercial factoring, bill acceptance, letters of credit or other forms of debt financing. Furthermore, the CBIRC, together with several other governmental authorities, jointly issued the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies on October 9, 2019, which provide that car dealers and car sales service providers shall not operate the business of providing guarantees for car consumption loans without the approval of competent regulatory authorities, and institutions providing client recommendation, credit evaluation and other services for lending institutions shall not provide financing guarantee services or provide such services in a disguised form without necessary approval from competent government authorities. If an institution without any financing guarantee business permit is engaged in the financing guarantee business, it shall be prohibited from continuing such unlicensed financing guarantee business and ordered to settle its remaining guarantee business properly. If the aforesaid institution intends to continue the financing guarantee business, it shall establish a financing guarantee company in accordance with applicable laws to conduct the financing guarantee business.

Under our arrangements with certain financial institutions, Shanghai Cango and Cango Financing Guarantee Co., Ltd., or Cango Financing, one of the wholly-owned subsidiaries of Shanghai Cango, are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. As of December 31, 2020, the total outstanding balance of financing transactions funded by financial institutions under such arrangements was RMB25.8 billion (US\$4.0 billion), representing 59.3% of the total outstanding balance of financing transactions we facilitated. Due to the lack of further interpretations of the aforementioned rules related to financing guarantee business, there is still uncertainty as to the exact scope and application of “operating financing guarantee business” and “providing financing guarantee services in a disguised form” under such regulations, and what factors the relevant regulatory authorities may consider in making such a determination. Therefore, it is uncertain whether Shanghai Cango would be deemed to operate financing guarantee business because of our current arrangements with certain financial institutions. We have utilized Cango Financing, a financing guarantee company established with the approval by the competent government authority governing the financing guarantee business and with the license to provide financing guarantee services, to provide guarantee for financial institutions in most cases, while in certain cases Shanghai Cango, which does not hold the license to operate financing guarantee business, still undertakes an obligation to purchase the relevant financing receivables upon certain specified events of default by car buyers under our arrangements with such financial institutions. If the relevant regulatory authorities determine that the aforesaid activities of Shanghai Cango under our current arrangements with certain financial institutions qualify as “operating financing guarantee business” or “providing financing guarantee services in a disguised form”, we may be required to either cease bearing credit risk as part of our arrangements with the financial institutions as described above, or adjust our arrangements with the financial institutions to the effect that only Cango Financing will bear the credit risk. If we are unable to satisfy such requirement, we may no longer be able to collaborate with the relevant financial institutions, or become subject to penalties, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Furthermore, even if we successfully change our arrangements with the financial institutions and only Cango Financing will provide such credit enhancement services in the future, the outstanding guarantee liabilities of a financing guarantee company may not exceed ten times of its net assets as required by the Financing Guarantee Rules. If the amount of guarantee liabilities exceeds ten times of Cango Financings total net assets, we may be required to increase the total net assets of Cango Financing by means of, among others, increasing the paid-up capital contribution. However, we cannot assure you that we will be able to make such capital contribution timely, or at all. Our inability to make such capital contribution on a timely basis could have an adverse impact on our business.

Our business of facilitating financing transactions between financial institutions and car buyers may constitute provision of intermediary service, and our agreements with these financial institutions may be deemed as intermediation contracts under the PRC Civil Code.

Our business of facilitating financing transactions by connecting financial institutions and individual car buyers may constitute an intermediary service, and such services may be deemed as intermediation contracts under the PRC Civil Code. Under the PRC Civil Code, an intermediary may not claim for service fee and is liable for damages if it conceals any material fact intentionally or provides false information in connection with the conclusion of an intermediation contract, which results in harm to the client's interests. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Related to Intermediation." Therefore, if we fail to provide material information to financial institutions, or if we fail to identify false information received from car buyers or others and in turn provide such information to financial institutions, and in either case if we are also found to be at fault, due to failure or deemed failure to exercise proper care, such as to conduct adequate information verification or employee supervision, we could be held liable for damage caused to financial institutions as an intermediary pursuant to the PRC Civil Code. In addition, if we fail to complete our obligations under the agreements entered into with financial institutions, we could also be held liable for damages caused to financial institutions pursuant to the PRC Civil Code.

We may not be able to enforce our rights against car buyers.

We offer car buyers various value-added services associated with purchasing a car with financing. Such services mainly involve registrations of license plates and collaterals with the relevant government authorities. However, we do not enter into written contracts with some car buyers, and for those we had written contracts with, the contract terms are not clear about the service fees we charge. In the event a legal dispute arises between a car buyer and us, we may not be able to enforce our rights against the relevant car buyer. Our failure to enforce our rights may materially and adversely affect our business, results of operation and financial condition.

The scale of Shanghai Chejia's business may be limited by its total net assets.

In September 2013, the Ministry of Commerce, or the MOFCOM, promulgated the Measures for Supervision and Administration of Financing Lease Enterprises, pursuant to which the risk assets of a financing lease enterprise may not exceed ten times of its total net assets. According to the Measures for the Administration of Foreign Funded Lease Industry, promulgated by the MOFCOM in 2005 and amended by the MOFCOM in 2015, the term “risk assets” refers to a company’s total assets, net of cash, bank deposits, Chinese treasury bonds and lease assets held in custody. In April 2018, the MOFCOM transferred the duties to make rules on the operation and supervision of financing lease companies to the newly formed CBIRC. In May 2020, the CBIRC promulgated the Interim Measures for the Supervision and Administration of Financial Leasing Companies, which provide that the risk assets of a financing lease enterprise may not exceed eight times of its total net assets, and the term “risk assets” of a financing lease enterprise refer to its total assets, net of cash, bank deposits, Chinese treasury bonds, and supersede the relevant provision in the abovementioned measures. Please refer to “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation Related to Financing Lease” for more details. As the Interim Measures for the Supervision and Administration of Financial Leasing Companies were newly adopted and the governmental authorities may promulgate more laws, regulations or rules, there are still substantial uncertainties how these new measures will be interpreted and implemented. Shanghai Chejia funds financing leases for car buyers on our platform, and its risk assets consist of financing lease receivables relating to the financing leases it funds.

Shanghai Chejia is our wholly-owned consolidated subsidiary. We may expand the amount of financing leases provided by Shanghai Chejia, which would increase the amount of financing lease receivables of Shanghai Chejia. When the amount of financing lease receivables exceeds the statutory limits, we may be required to increase the total net assets of Shanghai Chejia by means of, among others, increasing the paid-up capital contribution. However, we cannot assure you that we will be able to make such capital contribution timely, or at all. Our inability to make such capital contribution on a timely basis could have an adverse impact on our business.

We face intense competition and we may not be able to compete effectively.

The automotive transaction industry in China is large yet competitive. We compete against automotive transaction platforms that connect various players across the automotive transaction value chain, to facilitate automotive and automotive-related transactions, including automotive financing. Our competitors may offer automotive financing solutions with lower cost and/or deliver better user experience to prospective car buyers. OEM-sponsored subsidy programs may also compete with our automotive financing solutions, reduce our market share and adversely affect our results of operations. We may also in the future face competition from new entrants that will increase the level of competition. We anticipate that more established companies, including technology companies that possess large, existing user bases, substantial financial resources and sophisticated technological capabilities may also enter the market in the future. Our competitors may operate different business models, have different cost structures or participate selectively in different industry segments. They may ultimately prove to be more successful or more adaptable to customer demand and new regulatory, technological and other developments. Some of our current and potential competitors may have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sales and support of their platform, product and solution and service offerings. Our competitors may also have longer operating history, greater brand recognition and brand loyalty and broader or closer relationships with dealers, financial institutions, OEMs or other automotive transaction industry participants than us. Additionally, a current or potential competitor may acquire, or form a strategic alliance with, one or more of our other competitors. Our competitors may be better at developing new products and solutions and services, offering more attractive fees, responding more quickly to new technologies and undertaking more extensive and effective marketing campaigns. More players may enter the automotive transaction or automotive finance industry and intensify the market competition. In response to competition and in order to grow or maintain the amount of financing transactions facilitated to car buyers, we may have to lower and/or adjust the various fees that we charge or pay to the different platform participants, which could materially and adversely affect our business, profit margins and results of operations. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our services could stagnate or substantially decline, which could harm our business and results of operations.

If our new solutions and services do not achieve sufficient market acceptance or provide the expected benefits to platform participants, our financial condition, results of operations and competitive position will be materially and adversely affected. New solutions and services may also subject us to regulatory risks.

We have incurred and will continue to incur expenses and consume resources to develop and market new solutions and services for platform participants, including dealers, financial institutions and car buyers. For example, we started to significantly expand our automobile trading solutions in the third quarter of 2020. We may also develop new solutions and services for other industry participants, such as OEMs and insurance brokers and companies. New solutions and services must achieve high levels of market acceptance in order for us to recoup our investment in developing, acquiring and bringing them to market.

Our existing or new solutions and services and changes to our platform could fail to attain sufficient market acceptance for many reasons, including but not limited to:

- our failure to predict market demand accurately and supply solutions and services that meet this demand in a timely fashion;
- platform participants may not like, find useful or agree with any changes we make;
- our failure to properly price new solutions and services;

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- negative publicity about our solutions and services or our platform’s performance or effectiveness;
- failure to seamlessly integrate our technology system with those of existing or new financial institutions we collaborate with;
- failure to evaluate credit applications efficiently;
- views taken by regulatory authorities that the new solutions and services or platform changes do not comply with PRC laws, rules or regulations applicable to us; and
- the introduction or anticipated introduction of competing solutions and services by our competitors.

If our new solutions and services do not achieve adequate acceptance in the market or provide the expected benefits to platform participants, our competitive position, financial condition and results of operations could be harmed. In addition, we may incur higher cost and expenses as a result of new solutions and services. New solutions and services may also subject us to additional regulatory or licensing requirements. Failure by us to comply with any such new regulatory or licensing requirements could materially and adversely affect our business and results of operations.

We may fail to maintain and expand our strategic partnership with Didi Chuxing.

We have established a strategic partnership with Didi Chuxing, a leading ride-sharing technology company in China. Through a series of equity investments in the first half of 2018, Didi Chuxing has become a strategic shareholder of our company, and as of December 31, 2020, it beneficially owned 28,376,116 Class A ordinary shares, representing 9.7% of our issued and outstanding shares. For further information, see “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

On July 9, 2018, we and Didi Chuxing entered into a business cooperation agreement, which provides the framework for our strategic partnership. Pursuant to the agreement, the two parties grant each other a priority right with respect to cooperation in the area of automotive financing services, provided that third parties do not offer more favorable terms. In addition, we and Didi Chuxing agree to develop comprehensive solutions that are oriented towards drivers on Didi Chuxing’s platform in areas such as vehicle sourcing and automotive financing. The two parties will also explore cooperation in certain other areas such as insurance facilitation, GPS installations and big data analysis. We served 509 licensed Didi Chuxing drivers in 2020 by providing them with comprehensive solutions including automotive financing and insurance facilitation. In addition, Didi Chuxing’s drivers who plan to purchase cars can access our services through Didi Chuxing’s mobile app. The arrangement offers us new opportunities to facilitate car sales.

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There can be no assurance that we will successfully execute the plan. Drivers and other participants of Didi Chuxing's platform may not recognize the value of our services. Furthermore, the business cooperation agreement does not specify a target or commitment as to the scale of cooperation. Didi Chuxing may terminate, or reduce the scale of, our cooperation or otherwise limit our ability to offer services to participants of its platform. If we fail to maintain and expand our strategic partnership with Didi Chuxing, our business, results of operations and financial condition could be materially and adversely affected.

Pursuant to the shareholders agreement, we may not set up any joint venture, partnership or enter into any strategic cooperation arrangements with certain competitors of Didi Chuxing, for so long as Didi Chuxing's shareholding percentage in our company is not lower than five percent. Such restrictions may adversely affect our business, results of operations and financial condition.

We may need additional capital to pursue business objectives and respond to business opportunities, challenges or unforeseen circumstances, and financing may not be available on terms acceptable to us, or at all.

Since inception, we have issued equity securities and borrowed from financial institutions to support the growth of our business. As we intend to continue to make investments to support the growth of our business, we may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including developing new solutions and services, increasing the amount of financing transactions we facilitate, further enhance our risk management capabilities, increasing our sales and marketing expenditures to improve brand awareness and engage car buyers through expanded online channels, enhancing our operating infrastructure and acquiring complementary businesses and technologies. We may expand the amount of financing leases provided by Shanghai Chejia, and we may need to make additional capital contribution as a result. Furthermore, we may further increase the number of cars that we purchase from OEMs to enable our registered dealers to access additional car sourcing channels. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them, on terms that are acceptable to us, or at all. Repayment of the debts may divert a substantial portion of cash flow to repay principal and service interest on such debt, which would reduce the funds available for expenses, capital expenditures, acquisitions and other general corporate purposes; and we may suffer default and foreclosure on our assets if our operating cash flow is insufficient to service debt obligations, which could in turn result in acceleration of obligations to repay the indebtedness and limit our sources of financing.

Volatility in the credit markets may also have an adverse effect on our ability to obtain debt financing. If we raise additional funds through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A ordinary shares. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, financial condition, results of operations and prospects could be adversely affected.

Our failure to adequately recover value of car collaterals may materially and adversely affect our results of operations.

All financing transactions we facilitate are secured by car collaterals. Change in the residual value of car collaterals securing these financing transactions may affect their recoverability. How such change affects our results of operations depends on the funding arrangement for the relevant financing transaction. We are not obligated to bear credit risk for financing transactions funded by certain financial institutions. Nonetheless, we charge such financial institutions fees for disposals of recovered cars, and such fees are based on a percentage of the proceeds from disposals. As such, a decrease in residual value of car collaterals results in a decrease in the fee we charge for disposals. Under our arrangements with certain other financial institutions, Shanghai Cango and Cango Financing Guarantee Co., Ltd. are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. After purchasing such financing receivables, security interest in the collateral is also transferred to us. We incur losses as residual value of car collaterals declines below the amount we expected to recover. In addition, our wholly-owned subsidiary Shanghai Chejia directly funds financing leases, in which case security interest in the relevant collaterals belongs to Shanghai Chejia.

Residual values of car collaterals are often affected by factors beyond our control. After purchase by a car buyer, a car may suffer damage from traffic accidents. In addition, the introduction of new car models and overall trend of gradual decrease in used car prices with the age of cars may cause the residual value of cars to decrease. Restrictions on inter-city or inter-province transfer of used cars imposed by various local government authorities in China may also result in lower residual value of cars that likely will be transferred to such cities with local transfer restrictions. Although the central PRC government has issued several official opinions or circulars to prohibit such local restrictions and market segregation, aiming to stimulate inter-city or inter-province used car trading by deregulation, certain transfer restrictions are still officially allowed. Residual value may also be adversely affected due to inappropriate handling of the third parties we collaborate with, such as warehouses. Our pricing models may not be able to capture all factors that may affect the residual value of car collaterals. Significant decrease in residual value of car collaterals may lower the recoverability of financing transactions and undermine the cost efficiency of our recovery efforts, which may materially and adversely affect our results of operations. Furthermore, there can be no assurance that we will be able to dispose car collaterals at residual values, or at all.

Any harm to our brand or reputation or any damage to the reputation of financial institutions we collaborate with or other third parties or the automotive finance industry or failure to enhance our brand recognition could have a material adverse effect on our results of operations and growth prospects.

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;

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- maintain and develop relationships with dealers, financial institutions, insurance brokers and insurance companies;
- maintain and develop relationships with OEMs;
- provide prospective car buyers and existing car buyers with superior experiences;
- enhance and improve our credit assessment of car buyers;
- effectively manage and resolve any complaints of dealers, financial institutions or car buyers; and
- effectively protect personal information and privacy of car buyers and any sensitive data received from financial institutions.

Any malicious or inadvertent negative allegations made by the media or other parties about the foregoing or other aspects of our company, including but not limited to our management, business, compliance with law, financial condition or prospects, whether with merit or not, could severely hurt our reputation and harm our business and results of operations.

As the automotive finance market in China is under rapid development 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 automotive finance industry in general may also have a negative impact on our reputation, regardless of whether we have engaged in any inappropriate activities. Furthermore, any negative development in the automotive finance industry, such as bankruptcies or failures of platforms providing automotive financing solutions, and especially a large number of such bankruptcies or failures, or negative perception of the industry as a whole, such as any unethical or illegal activity by other industry players or any failure of platforms providing automotive financing solutions to detect or prevent unethical or illegal activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established and impose a negative impact on our ability to attract new dealers, financial institutions, car buyers and other platform participants. Negative developments in the automotive finance industry, such as widespread car buyer defaults, unethical or illegal activities by industry players and/or the closure of platforms providing automotive financing solutions, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business activities that may be conducted by companies like us. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

We collaborate with various automotive transaction industry participants in providing our solutions and services. Such participants include dealers, financial institutions, sales agents, insurance brokers and companies and other business partners. In addition, we started to collaborate with sales representatives in 2020 to enhance our sales efforts. Such sales representatives introduce our solutions to potential car buyers and car owners and generate leads to our platform. Negative publicity about such counterparties, including any failure by them to adequately protect the information of car buyers, to comply with applicable laws and regulations or to otherwise meet required quality and service standards could harm our reputation.

Fraudulent activities associated with car buyers could negatively impact our results of operations, brand and reputation and cause the use of our services to decrease.

We are subject to the risk of fraudulent activities associated with car buyers, who may provide us with information that is inaccurate or misleading. We do not and may not be able to verify all the information we receive from car buyers. To the extent we verify car buyers' information, our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. Furthermore, parties that handle car buyer information, such as dealers and sales agents, may aid car buyers in committing frauds. A significant increase in fraudulent activities could negatively affect our results of operations, harm our brand and reputation, discourage financial institutions from collaborating with us, reduce the amount of financing transactions facilitated to car buyers and lead us to take additional steps to reduce fraud risk, which could increase our costs. An overall increase of fraudulent activities in the automotive finance market or the consumer finance industry or incidence of 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. Moreover, inaccurate, misleading or incomplete car buyer information could also potentially subject us to liability as an intermediary under the PRC Civil Code. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Related to Intermediation." Although we have not been materially affected by fraudulent activities associated with car buyers in the past, we cannot rule out the possibility that such fraudulent activities may materially and adversely affect our business, financial condition and results of operations in the future.

Fluctuations in interest rates could negatively affect our reported results of operations.

We charge service fees to financial institutions for facilitating financing transactions. If prevailing market interest rates decline, the operating margins of financial institutions may decrease, which may force us to lower the service fees we are able to charge them. If we do not sufficiently lower our service fees and keep our fees competitive in such instances, financial institutions may decide not to utilize our services because of our less competitive service fees and may take advantage of lower service fees offered by other companies, and our ability to retain, attract and engage prospective financial institutions as well as our competitive position may be severely undermined. On the other hand, if prevailing market interest rates increase, car buyers would be less likely to finance car purchases with credit or we may need to reduce our service fees to mitigate the impact of increased interest rates, and our financial condition and profitability could also be materially and adversely affected.

Furthermore, relevant regulatory and judicial authorities may change the private lending rate of interest that can be charged by non-financial institutions from time to time. On August 20, 2020, China's Supreme People's Court, or the SPC, announced its decision to lower the cap for such private lending rate in a revised judicial interpretation. Under the revised judicial interpretation, such total annual percentage rates (inclusive of any default rate, default penalty and any other fee) exceeding four times that of China's benchmark one-year loan prime rate, or LPR, as published on the 20th of each month will not be legally protected. Based on the LPR of 3.85% as published on February 20, 2021, such cap would be 15.4%.

Our quarterly results may fluctuate significantly partly due to seasonality and may not fully reflect the underlying performance of our business.

Our quarterly results of operations, including the levels of our revenues, operating cost and expenses, net (loss)/income and other key metrics, may vary significantly in the future due to a variety of factors, some of which are outside of 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 ADSs. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to attract new car buyers;
- our ability to maintain existing relationships with business partners and establish new relationships with additional business partners, such as dealers, financial institutions and OEMs;
- the amount of financing transactions, automobile trading transactions and insurance transactions on our platform;
- overdue ratios of financing transactions we facilitate;
- the mix of solutions and services we offer;
- the amount and timing of our operating cost and expenses and the maintenance and expansion of our business, operations and infrastructure;
- financial institutions' willingness and ability to fund financing transactions through our platform on reasonable terms;
- our emphasis on experience of car buyers, instead of near-term growth;
- the timing of expenses related to the development or acquisition of technologies or businesses;
- proper and sufficient accounting policies with respect to our risk assurance liabilities and implementation;
- network outages or security breaches;
- general economic, industry and market conditions; and
- changes in applicable laws and regulations.

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In addition, we have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and results of operations. Our revenue trends reflect car purchase patterns by car buyers. Car buyers in China tend to purchase a higher volume of cars in the second half of each year, in part due to the introduction of new models from automakers. Further, the holiday period following the Chinese New Year is in the first quarter, which may contribute to lower activity levels in that quarter of each year. As a result of these factors, our revenues may vary from quarter to quarter. Our actual results may differ significantly from our targets or estimated quarterly results. Therefore, you may not be able to predict our annual results of operations based on a quarter-to-quarter comparison of our results of operations. The quarterly fluctuations in our revenues and results of operations could result in volatility and cause the price of our shares to fall. As our revenues grow, these seasonal fluctuations may become more pronounced.

We may not realize the benefits we expect from our investments in certain securities and investment products, and this may materially and adversely affect our business, financial condition, results of operations and prospects.

We make investments in certain standardized capital instruments issued by financial institutions, including asset-backed securities in which the underlying assets are financing receivables related to financing transactions we facilitate. We have also made short-term investments in a public company and wealth management products, which are primarily invested in various types of debt securities. As of December 31, 2020, we had short-term investments of RMB4,342.4 million (US\$665.5 million), a major portion of which was related to our equity investment in Li Auto Inc., or Li Auto, a company that offers premium smart electric SUVs and listed its ADSs on the NASDAQ under the symbol “LI” in July 2020. Our fair value change of equity investment in 2020 was a gain of RMB3,315.5 million (US\$508.1 million). Any change in fair value of the equity investment due to the price volatility of Li Auto’s ADSs may have a significant impact on our results of operations and financial condition. We cannot assure you as to the return of such investments and we may need to recognize losses in connection with these investments, which may have a material adverse effect on our business, financial condition and results of operations.

Uncertainties relating to the growth of the Chinese automotive and mobility markets in general, and the automotive finance industry in particular, could adversely affect our business and results of operations.

We generate a substantial portion of our revenue from automotive financing facilitation services, as well as automobile trading solutions. As a result, the amount of revenue is affected by the development of the automotive and mobility industries in China. The long-term viability and prospects of various automotive financing and transaction models in China remain relatively untested. As such, demand for our solutions and services and our future results of operations will depend on numerous factors affecting the development of the automotive and mobility industries in China, which may be beyond our control. These factors include:

- the growth in car ownership and the rate of any such growth;
- changes in car buyer demographics, tastes and preferences;
- changing financing behavior of car buyers;
- the selection, price and popularity of cars offered by dealers and OEMs; and

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- whether alternative channels or business models that better address the needs of car buyers emerge in China.

A general decline in the use of and demand for cars, or any failure by us to adapt our platform and maintain and improve the experience of various platform participants as to our solutions and services in response to new trends and requirements, may adversely affect our results of operations and business prospects.

Government policies on car purchases and ownership may have a material effect on our business due to their influence on consumer behaviors. In 2017, a lower consumption tax rate was applicable to cars with engines that are 1.6-liter or smaller, and such tax break terminated at the end of 2017, which had an adverse effect on sales of such cars thereafter. The termination of the lower consumption tax rate partially contributed to a slower year-on-year growth rate of our revenues in 2018 as well as decreases in net income in 2018 as compared to 2017.

In August 2014, several PRC governmental authorities jointly announced that from September 2014 to December 2017, purchases of new energy cars designated on certain catalogs will be exempted from the purchase taxes. In April 2015, several PRC governmental authorities also jointly announced that from 2016 to 2020, purchasers of new energy cars designated on certain catalogs will enjoy subsidies. In December 2016, relevant PRC governmental authorities further adjusted the subsidy policy for new energy cars. In April 2020, relevant governmental authorities extended certain subsidies and tax exemptions on electric vehicle purchases to the end of 2022. We cannot predict whether government subsidies will remain in the future or whether similar incentives will be introduced, and if they are, their impact on automotive retail transactions in China. It is possible that automotive retail transactions may decline significantly upon expiration of the existing government subsidies if consumers have become used to such incentives and delay purchase decisions in the absence of new incentives. If automotive retail transactions indeed decline, our revenues may decrease, and our results of operations may be materially and adversely affected.

In May 2018, the Ministry of Finance of China announced significant reductions in tariffs on imported cars and car parts, which became effective on July 1, 2018. While such reductions are likely to enhance consumption in the automotive market, there may also be disruptions to existing market trends as a result of competition from imported products. If we fail to adapt to changes in the automotive market, our business, results of operations and financial condition would be materially and adversely affected.

Some local governmental authorities also issued regulations and relevant implementation rules in order to control urban traffic and the number of cars within particular urban areas. For example, local Beijing governmental authorities adopted regulations and relevant implementing rules in December 2010 to limit the total number of license plates issued to new car purchases in Beijing each year. Local Guangzhou governmental authorities also announced similar regulations, which came into effect in July 2013. There are similar policies that restrict the issuance of new license plates in Shanghai, Tianjin, Hangzhou, Guiyang and Shenzhen. In September 2013, the State Council released a plan for the prevention and remediation of air pollution, which requires large cities, such as Beijing, Shanghai and Guangzhou, to further restrict the number of motor vehicles. In October 2013, the Beijing government issued an additional regulation to limit the total number of vehicles in Beijing to no more than six million by the end of 2017. Such regulatory developments, as well as other uncertainties, may adversely affect the growth prospects of China's automotive and mobility industries, which in turn may have a material adverse impact on our business.

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The COVID-19 pandemic significantly impacted the Chinese economy in 2020, including the Chinese automotive and mobility markets. The COVID-19 pandemic may continue to affect the Chinese automotive and mobility markets in the future, which would in turn have a material adverse impact on our business.

Any significant disruption in our IT systems, including events beyond our control, could prevent us from offering our solutions and services or reduce their attractiveness and result in a loss of car buyers, financial institutions and other platform participants.

In the event of a system outage, malfunction or data loss, our ability to provide services would be materially and adversely affected. The satisfactory performance, reliability and availability of our technology and our underlying network infrastructure are critical to our operations, user service, reputation and our ability to attract new and retain existing car buyers and financial institutions. Our IT systems infrastructure is currently deployed, and our data is currently maintained through a customized cloud computing system. Our servers are housed at third-party data centers, and our operations depend on the service providers' ability to protect our systems in their facilities as well as their own 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, many of which may be beyond our control. Many of our mobile applications are also provided through third-party app stores and any disruptions to the services of these app stores may negatively affect the delivery of our mobile applications to users. Moreover, if our arrangement with these service providers are terminated or if there is a lapse of service or damage to their facilities or if the services are no longer cost-effective to us, we could experience interruptions in our solutions and service as well as delays and additional expense in arranging new automotive financing solutions for car buyers and to serve our other platform participants. Our ability to exchange information with financial institutions and obtain credit data from third parties could also be interrupted.

Any interruptions or delays in our service, whether as a result of third-party error, our error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with car buyers and financial institution and other platform participants and our reputation. We may not have sufficient capacity to recover all data and services lost in the event of an outage. These factors could prevent us from processing credit applications and other business operations, damage our brands and reputation, divert our employees' attention, reduce our revenue, subject us to liability and cause car buyers and financial institutions and other platform participants to abandon our solutions and services, any of which could adversely affect our business, financial condition and results of operations.

Technology is a critical aspect in the efficient operation of our business, and if any of our systems contain undetected errors, or if we fail to effectively implement technology initiatives or anticipate future technology needs or demands, our operations may be materially and adversely affected.

The efficient and reliable operation of our business depends on technology as well as our IT systems. Our systems, enterprise applications and software on which we depend for the operation of our business may contain programming errors or other defects that our internal testing did not detect. The occurrence of such undetected errors or defects in our systems and software could disrupt our operations, damage our reputation and detract from the experience of our users.

In addition, our future success depends on our ability to anticipate technology development trends and identify, develop and commercialize new technology initiatives in a timely and cost-effective manner in order to deliver services demanded by platform participants. However, we may fail to recruit, train and retain qualified research and development personnel, and there can be no assurance that we will be able to implement new technology initiatives effectively, or that we will be successful in anticipating new technology needs and demands of our customers and of the market at large. Moreover, it may take an extended period of time for our new technologies and services to gain market acceptance, if at all. If we fail to effectively implement technology initiatives or anticipate future technology needs or demands, our operations may be materially and adversely affected.

Misconducts and errors by our employees and third parties we collaborate with 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 business partners that we collaborate with. Our business depends on our employees and third parties, such as dealers, financial institutions, sales agents and sales representatives, to interact with car buyers, process large numbers of transactions and support the collection process. We could be materially and adversely affected if transactions are 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. It is not always possible to identify and deter misconduct or errors by employees or third-party business partners, 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 business partners take, convert or misuse funds, documents or data or fail to follow our rules and procedures when interacting with car buyers, we could be liable for damages and subject to regulatory actions and penalties. We could also be perceived to have facilitated or participated in the illegal misappropriation of funds, documents or data, or the failure to follow our rules and procedures, and therefore be subject to civil or criminal liability. Any of these occurrences could result in our diminished ability to operate our business, potential liability to car buyers, inability to attract car buyers, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

If we are unable to safeguard the security of the confidential information of car buyers, dealers or third parties we collaborate with and adapt to the relevant regulatory framework as to protection of such information, our business and operations may be adversely affected.

We collect, store and process certain personal and other sensitive data from car buyers, dealers and other third parties, which makes us an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. While we have taken steps to protect the confidential information that we have access to, our security measures could be breached. Because techniques used to sabotage or obtain unauthorized access to systems change 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 measures. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential car buyer information to be stolen and used for criminal purposes. 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. 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, our relationships with car buyers, dealers and/or financial institutions could be severely damaged, we could incur significant liability and our business and operations could be adversely affected.

In addition, PRC government authorities have enacted a series of laws and regulations in regard of the protection of personal information, under which financial service providers are required to comply with the principles of legality, justification and necessity, to clearly indicate the purposes, methods and scope of any information collection and usage, and to obtain the consent of users, as well as to establish user information protection system with appropriate remedial measures. We obtain consents from car buyers on our platform to use their personal information within the scope of authorization and we have taken technical measures to ensure the security of such personal information and prevent the personal information from being divulged, damaged or lost. Furthermore, pursuant to confidentiality provisions in our cooperation agreements with financial institutions, we have the obligation to safeguard car buyers' personal information and to only use such information within the authorized scope. We may face litigation brought by financial institutions or car buyers, if we fail to satisfy our confidentiality obligations in the relevant cooperation agreements, or if our use of car buyers' data fall outside of the scope of their authorization, as the case may be. Furthermore, there is uncertainty as to the interpretation and application 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. Recently, several PRC governmental authorities have taken a series of strict examinations and inspections against illegal activities of collecting or using data and personal information, and it was reported that numerous mobile applications or website operators were ordered to rectify their illegal activities, or imposed with warnings, fines or other administrative penalties, or even became subjects of criminal investigations. We cannot rule out the possibility that operators like us would also be subject to more comprehensive and stricter supervision by the competent governmental authorities on such issues in the future. The regulatory framework for personal information and data protection issues in China and worldwide is continuously evolving and is likely to remain uncertain for the foreseeable future, and there can be no assurance that our existing car buyer information protection system and technical measures will be considered sufficient under applicable laws and regulations. If we are unable to address any information protection concerns, or to comply with the then applicable laws and regulations, we may incur additional costs and liability and our reputation, business and operations might be adversely affected. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Related to Internet Information Security and Privacy Protection" for more details.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

As a U.S. public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the NYSE. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. As required by Section 404 of the Sarbanes-Oxley Act, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Form 20-F filing for that year. In addition, once we cease to be an “emerging growth company” as the term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2020. See “Item 15. Controls and Procedures — Management’s Annual Report on Internal Control over Financial Reporting.” Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting.

In addition, our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

However, we may not be able to always maintain an effective internal control over financial reporting for a variety of reasons. Among others, we are based in China, an emerging market where the overall internal control environment may not be as strong as in more established markets. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of our ADSs could decline and we could be subject to sanctions or investigations by the NYSE, SEC or other regulatory authorities.

The ability of U.S. authorities to bring actions for violations of U.S. securities law and regulations against us, our directors, executive officers or the expert named in this annual report may be limited and therefore you may not be afforded the same protection as provided to investors in U.S. domestic companies.

The SEC, U.S. Department of Justice (“DOJ”) and other authorities often have substantial difficulties in bringing and enforcing actions against non-U.S. companies such as us, and non-U.S. persons, such as our directors and executive officers in China. Due to jurisdictional limitations, matters of comity and various other factors, the SEC, DOJ and other U.S. authorities may be limited in their ability to pursue bad actors, including in instances of fraud, in emerging markets such as China. 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. There are significant legal and other obstacles for U.S. authorities to obtain information needed for investigations or litigation against us or our directors, executive officers or other gatekeepers in case we or any of these individuals engage in fraud or other wrongdoing. In addition, local authorities in China may be constrained in their ability to assist U.S. authorities and overseas investors more generally. As a result, if we have any material disclosure violation or if our directors, executive officers or other gatekeepers commit any fraud or other financial misconduct, the U.S. authorities may not be able to conduct effective investigations or bring and enforce actions against us, our directors, executive officers or other gatekeepers. Therefore, you may not be able to enjoy the same protection provided by various U.S. authorities as it is provided to investors in U.S. domestic companies.

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

We regard our trademarks, domain names, 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 “Item 4. Information on the Company—B. Business Overview—Intellectual Property.” However, there can be no assurance 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 damage. Because of the rapid pace of technological change, there can be no assurance that all of our proprietary technologies and similar intellectual property will be patented in a timely or cost-effective manner, or at all. For example, we do not hold any patent relating to our credit assessment model. Furthermore, parts of our business rely on technologies developed or licensed by other parties, or co-developed with other parties, including open source software, 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.

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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 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. 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.

Meanwhile, 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 be from time to time in the future 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 services 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 U.S. 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.

We currently use open source software in certain aspects of our platform and business operations, and we expect to continue to use open source software in the future. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our technologies, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer or discontinue our solutions or incur additional costs. We cannot be certain that we have incorporated open source software in our solutions in a manner that is consistent with our policies.

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 there can be no assurance 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.

If we fail to keep up with the technological developments and implementation of advanced technologies, our business, results of operations and prospects may be materially and adversely affected.

We apply technology to serve our platform participants more efficiently and bring them better user experience. Our success will in part depends on our ability to keep up with the changes in technology and the continued successful implementation of advanced technology, including cloud computing, distributed architecture and big data analytics. If we fail to adapt our platform and services to changes in technological development in an effective and timely manner, our business operations may suffer. Changes in technologies may require substantial expenditures in research and development as well as in modification of our services. Technical hurdles in implementing technological advances may result in our services becoming less attractive to platform participants, which, in turn, may materially and adversely affect our business, results of operations and prospects.

As our business develops, we may be required to obtain license for providing value-added telecommunications services.

The Telecommunications Regulations of the PRC, the Administrative Rules for Foreign Investment in Telecommunications Enterprises and other relevant regulations on the operation of value-added telecommunication service business provide a license requirement for operating such business in the PRC. As we continually enrich the service offerings on our platform, we plan to engage in telecommunications-related businesses, including value-added online services for platform participants, in the future. However, we cannot assure you that we will be able to obtain the requisite license for providing value-added telecommunications services on a timely basis or at all. Our inability to obtain such license or any delay in obtaining such license could have a material and adverse impact on our business and results of operations.

We are subject to risks relating to our leased properties.

Currently all of our offices and vehicle storage warehouses are on leased premises. We may not be able to successfully extend or renew our leases upon expiration of the current terms on commercially reasonable terms or at all, and may therefore be forced to relocate the relevant offices and warehouses. Such relocation could disrupt our operations and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. In addition, we may not be able to locate desirable alternative sites for our offices and warehouses, and failure in relocating our affected operations could adversely affect our business and operations.

Pursuant to the Land Administration Law of the PRC, land in urban districts is owned by the state. The owner of a property built on state-owned land must possess the proper land and property title certificate to demonstrate that it is the owner of the premises and that it has the right to enter into lease contracts with the tenants or to authorize a third party to sublease the premises. As of December 31, 2020, we have entered into 21 lease agreements with parties who have not produced evidence of proper legal title of the premises. If such parties are not the owners of the premises, and the actual owners successfully challenge the validity of the relevant leases, we would be forced to relocate. Although we may seek damages from the counterparties to the lease agreements, there can be no assurance that we would be able to collect such damages.

Our failure to fully comply with PRC labor-related laws may expose us to potential penalties.

The PRC government has promulgated laws and regulations to enhance labor protections, such as the Labor Contract Law, the Social Insurance Law and the Regulations on the Administration of Housing Funds. Such laws and regulations require companies operating in China 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, including bonuses and allowances, of employees up to a maximum amount specified by the relevant local government from time to time. The requirement of employee benefit plans has not been implemented consistently by the local authorities in China given the different levels of economic development in different locations. We did not pay, or were not able to pay, certain social insurance and housing fund contributions in strict compliance with the relevant PRC regulations for and on behalf of our employees due to differences in local regulations and inconsistent implementation or interpretation by local authorities in the PRC. We may be required to make up the contributions for these plans as well as to pay late fees and fines, and our financial condition and results of operations may be adversely affected.

Any failure by us or third parties we collaborate with to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations could damage our reputation, expose us to significant penalties, and decrease our revenues and profitability.

We have implemented various policies and procedures in compliance with all applicable anti-money laundering and anti-terrorist financing laws and regulations, including internal controls and “know-your-customer” procedures, for preventing money laundering and terrorist financing. In addition, we rely on financial institutions to have their own appropriate anti-money laundering policies and procedures. Financial institutions we collaborate with are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. We have adopted commercially reasonable procedures for monitoring financial institutions we collaborate with.

We have not been subject to fines or other penalties, or suffered business or other reputational harm, as a result of actual or alleged money laundering or terrorist financing activities in the past. However, our policies and procedures may not be completely effective in preventing other parties from using us or any financial institutions we collaborate with 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 and financial institutions we collaborate with comply with applicable anti-money laundering laws and regulations, we and these financial institutions may not be able to fully eliminate money laundering and other illegal or improper activities in light of their complexity and the secrecy of these activities. Any negative perception of the industry, such as that which may arise from any failure of other automotive financing solution facilitation 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 operation.

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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 services, better serve car buyers, and enhance our competitive position. For example, in June 2018, January 2019 and July 2019, we made a series of equity investments in Li Auto. At the end of September 2018, we completed the Acquisition of Shanghai Chejia, which has become our wholly-owned consolidated subsidiary. In 2019, we acquired Shanghai Quanpin Automobile Sales Co., Ltd., which wholly owns Fushun Insurance Brokerage Co., Ltd., to operate our insurance brokerage business.

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 obtain the benefits or avoid the difficulties and risks of such transaction, which may result in investment losses.

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

- difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, products and services of the acquired business;
- inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits including the failure to successfully further develop the acquired technology;
- difficulties in retaining, training, motivating and integrating key personnel;
- diversion of management's time and resources from our normal daily operations and potential disruptions to our ongoing businesses;
- strain on our liquidity and capital resources;
- difficulties in executing intended business plans and achieving synergies from such strategic investments or acquisitions;
- difficulties in maintaining uniform standards, controls, procedures and policies within the overall organization;

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- difficulties in retaining relationships with existing dealers, financial institutions, car buyers, employees and other partners 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;
- 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 for liability;
- 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; and
- unexpected costs and unknown risks and liabilities associated with strategic investments or acquisitions.

Any 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.

Our business depends on the continued efforts of our senior management. If one or more members of our senior management 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 senior management, particularly the executive officers named in this annual report. In particular, Mr. Xiaojun Zhang, our founder and chairman, and Mr. Jiayuan Lin, our founder and chief executive officer, are critical to the management of our business and operations and the development of our strategic direction. While we have provided various incentives to our management, there can be no assurance that we can continue to retain their services. If one or more members of our senior 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. Any new executive we recruit may fail to develop or implement effective business strategies. In addition, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team will not join our competitors or form a competing business. 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.

Intense competition for employees and increases in labor costs in the PRC may adversely affect our business and results of operations.

We believe our success depends on the efforts and talent of our employees, including sales and marketing, operations, risk management, research and development and finance personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled sales and marketing, operations, risk management, research and development and finance personnel is extremely intense. We may not be able to hire and retain these 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 us 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 the quality of our services and our ability to serve dealers, financial institutions, car buyers and other industry participants could diminish, resulting in a material adverse effect to our business.

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 insurance, housing funds, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. 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, our financial condition and results of operations may be adversely affected.

Our corporate actions will be substantially controlled by certain of our principal shareholders, who will have the ability to control or exert significant influence over important corporate matters that require approval of shareholders, which may deprive you of an opportunity to receive a premium for your ADSs and materially reduce the value of your investment.

In May 2018, our co-founders Mr. Xiaojun Zhang and Mr. Jiayuan Lin entered into a voting agreement, which was amended and restated in June 2019. Pursuant to the amended and restated voting agreement, the co-founders shall reach a consensus before exercising their voting rights with respect to our shares. The voting agreement became effective upon the completion of our initial public offering. As of March 31, 2021, our co-founders beneficially owned all of 74,978,677 Class B ordinary shares issued and outstanding. In addition, Mr. Lin beneficially owned 1,200,001 Class A ordinary share. Our third amended and restated memorandum and articles of association provides that in respect of all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, while each Class B ordinary share is entitled to 20 votes. As of March 31, 2021, our co-founders collectively exercised 87.6% of the aggregate voting power of our issued and outstanding share capital. As a result of the ownership concentration, these shareholders have the ability to control or exert significant influence over important corporate matters, investors may be prevented from affecting important corporate matters involving our company that require approval of shareholders, including:

- the composition of our board of directors and, through it, any determinations with respect to our operations, business direction and policies, including the appointment and removal of officers;

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- any determinations with respect to mergers or other business combinations;
- our disposition of substantially all of our assets; and
- any change in control.

These actions may be taken even if they are opposed by our other shareholders, including the holders of the ADSs. Furthermore, this concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of the ADSs. As a result of the foregoing, the value of your investment could be materially reduced.

We are a “controlled company” under the rules of NYSE and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the NYSE Listed Company Manual. Our co-founders Mr. Xiaojun Zhang and Mr. Jiayuan Lin collectively hold more than 50% of the aggregate voting power of our company. In May 2018, the co-founders entered into a voting agreement, which was amended and restated in June 2019. The amended and restated voting agreement provides that they shall reach a consensus before exercising their voting rights with respect to our shares. The voting agreement became effective upon the completion of our initial public offering. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

We may incur substantial share-based compensation expenses.

On May 25, 2018, we adopted the Share Incentive Plan 2018, which permits the grant of options, restricted shares, restricted share units and other share-based awards to our employees, directors and consultants. The maximum aggregate number of ordinary shares that may be issued pursuant to the share incentive plan is 27,845,526 initially. Additional ordinary shares may be reserved for issuance of equity awards as determined by our board of directors. In May 2018, we granted 5,569,105 options to purchase our ordinary shares to certain of our officers and employees. In February 2019, we granted another 5,569,105 options to certain eligible employees. In October 2020, we granted 8,353,658 options to certain eligible employees. We are required to account for options granted to our employees, directors and consultants. We are required to classify options granted to our employees, directors and consultants as equity awards and recognize share-based compensation expense based on the fair value of such share options, with the share-based compensation expense recognized over the period in which the recipient is required to provide service in exchange for the share option or other equity award. We believe the granting of share-based compensation is of significant importance to our ability to attract, retain and motivate our management team and talented employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase significantly, which may have an adverse effect on our results of operations and financial condition. We expect the options granted in May 2018, February 2019 and October 2020 to vest over a four-year period, with 50%, 25% and 25% of the options vesting upon the second, third and fourth anniversary of the grant date, respectively, subject to the conditions provided under the share incentive plan. We recognized RMB78.8 million (US\$12.1 million) of share-based compensation expenses in 2020.

We may not have sufficient 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 enough 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 incurring substantial costs and the diversion of resources, which could have an adverse effect on our financial condition and results of operations.

We are or may be subject to potential liability in connection with pending or threatened legal proceedings and other matters, which could adversely affect our business or financial results.

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including breach of contract claims, anti-competition claims and other matters. Such proceedings are inherently uncertain, and their results cannot be predicted with certainty. Regardless of the outcome and merit of such proceedings, any such legal action could have an adverse impact on our business because of defense costs, negative publicity, diversion of management's attention and other factors. In addition, it is possible that an unfavorable resolution, including any judgment or settlement subjecting us to liability, of one or more legal or administrative proceedings, whether in the PRC or in another jurisdiction, could materially and adversely affect our business, financial position, results of operations or cash flows in a particular period or damage our reputation.

We may be subject to product liability claims if people or properties are harmed by cars purchased through our platform.

Cars purchased through our platforms may be defectively designed or manufactured. As a result, we may be exposed to product liability claims relating to personal injury or property damage. Third parties subject to such injury or damage may bring claims or legal proceedings against us because we facilitate the financing or sale of the product. Although we would have legal recourse against the OEMs or dealers under PRC law, attempting to enforce our rights against the OEMs or dealers may be expensive, time-consuming and ultimately futile. In addition, we do not currently maintain any third-party liability insurance or product liability insurance in relation to cars purchased through our platforms. As a result, any material product liability claim or litigation could have a material and adverse effect on our business, financial condition and results of operations. Even unsuccessful claims could result in the expenditure of funds and managerial efforts in defending them and could have a negative impact on our reputation.

A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business, financial condition and results of operations.

Any prolonged slowdown in the Chinese or global economy may have a negative impact on our business, financial condition and results of operations. In particular, general economic factors and conditions in China or worldwide, including the general interest rate environment and unemployment rates, may affect consumers' demand for cars, car buyers' willingness to seek credit and financial institutions' ability and desire to fund financing transactions we facilitate. Economic conditions in China are sensitive to global economic conditions. The COVID-19 pandemic in 2020 has resulted in declines in economic activities in China and other parts of the world and raised concerns about the prospects of the global economy. As of the date of this annual report, we are unable to assess the full impact of the outbreak on our business, results of operations and financial condition. In addition, there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the U.S. and China. There have also been concerns over unrest in North Korea, Ukraine, the Middle East and Africa, which have resulted in volatility in financial and other markets. There have also been concerns over the expected withdrawal of the United Kingdom from the European Union as well as the trade and economic policies of the United States government, which have contributed to, among other things, tensions between the United States and its trading partners. There have also been concerns about the economic effect of the tensions in the relationship between China and surrounding Asian countries. If present Chinese and global economic uncertainties persist, we may have difficulty in obtaining financial institutions to fund financing transactions to car buyers. Adverse economic conditions could also reduce the number of quality car buyers seeking credit from us, as well as their ability to make payments. Should any of these situations occur, the amount of financing transactions facilitated to car buyers and our revenue will decline, and our business and financial condition will be negatively impacted. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

Our operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China.

Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. Our IT systems infrastructure is currently deployed, and our data is currently maintained through a customized cloud computing system. Our servers are housed at third-party data centers. Such service provider may have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing number and variety of transactions on our platform. There can be no assurance that our data centers and the underlying Internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in Internet usage.

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In addition, we have no control over the costs of the services provided by telecommunication service providers which in turn, may affect our costs of data center services. If the prices we pay for data center services rise significantly, our results of operations may be adversely affected.

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

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

Our business could also be adversely affected by the effects of COVID-19 coronavirus, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics. Our business operations could be disrupted if any of our employees is suspected of having COVID-19 coronavirus, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, SARS or another contagious disease or condition, since it could require our employees to be quarantined and/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 in general.

Risks Relating to Our Corporate Structure

We rely on contractual arrangements with our consolidated VIE and its shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and otherwise have a material adverse effect as to our business.

We rely on contractual arrangements with our consolidated VIE and its shareholders to operate our business. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders.” All of our revenue is attributed to our consolidated VIE. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated VIE. If our consolidated VIE or its shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our consolidated VIE is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of record holder of equity interest in our consolidated VIE, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest.

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All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the U.S. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our consolidated VIE, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected. See “—Risks Relating to Doing Business in China—There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

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

We, through one of our subsidiaries and a wholly foreign-owned enterprise in the PRC, have entered into a series of contractual arrangements with our consolidated VIE and its shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders.” If our consolidated VIE or its shareholders fail to perform their respective obligations under these 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, if the shareholders of our consolidated VIE were to refuse to transfer their equity interests in the consolidated VIE 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 the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the U.S. 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 VIE 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 consolidated VIE and relevant rights and licenses held by it which we require in order to operate our business, and our ability to conduct our business may be negatively affected. See “—Risks Relating to Doing Business in China—There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

The arbitration provisions under these contractual arrangements have no effect on the rights of our shareholders to pursue claims against us under United States federal securities laws.

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

The interests of the shareholders of our consolidated VIE in their capacities as such shareholders may differ from the interests of our company as a whole, as what is in the best interests of our consolidated VIE, including matters such as whether to distribute dividends or to make other distributions to fund our offshore requirement, may not be in the best interests of our company. There can be no assurance that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or those conflicts of interest will be resolved in our favor. In addition, these shareholders may breach or cause our consolidated VIE and its subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements to address potential conflicts of interest the shareholders of our consolidated VIE may encounter, on one hand, and as a beneficial owner of our company, on the other hand. We, however, could, at all times, exercise our option under the exclusive option agreement to cause them to transfer all of their equity ownership in our consolidated VIE to a PRC entity or individual designated by us as permitted by the then applicable PRC laws. In addition, if such conflicts of interest arise, we could also, in the capacity of attorney-in-fact of the then existing shareholders of our consolidated VIE as provided under the power of attorney, directly appoint new directors of our consolidated VIE. We rely on the shareholders of our consolidated VIE to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated VIE, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

If the PRC government deems that the contractual arrangements in relation to our consolidated VIE 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.

As we continually enrich the service offerings on our platform, we plan to engage in telecommunications-related businesses, including value-added online services for platform participants, in the future. The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are generally not allowed, with very limited exceptions, to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses. The primary foreign investor must also have experience and a good track record in providing value-added telecommunications services, or VATS, overseas.

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly foreign-owned enterprise in the PRC is a foreign-invested enterprise, or a FIE. Accordingly, our subsidiary is not eligible to operate a substantial portion of VATS business in China. As we plan to operate VATS business in the future, we conduct our business in China through our consolidated VIE and its affiliates. Our PRC subsidiary has entered into a series of contractual arrangements with our consolidated VIE and its shareholders, which enable us to (i) exercise effective control over the consolidated VIE, (ii) receive substantially all of the economic benefits of the consolidated VIE, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in the consolidated VIE 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 the consolidated VIE and hence consolidate its financial results as our consolidated VIE under U.S. GAAP. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders.”

We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. Our PRC legal counsel, Fangda Partners, based on its understanding of the relevant laws and regulations, is of the opinion that each of the contracts among our wholly-owned PRC subsidiary, our consolidated VIE and its shareholders is valid, binding and enforceable in accordance with its terms, except that the pledges in respect of our consolidated VIE’s equity interests would not be deemed validly created until they are registered with the local administration for market regulation. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry. There can be no assurance that the PRC government authorities, such as the MOFCOM or the MIIT, or other authorities that regulate online services providers and other participants in the telecommunications industry, would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

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On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, and on December 26, 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law of the People’s Republic of China, or the Implementing Rules, to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules, both taking effect on January 1, 2020, do not explicitly classify whether variable interest entities that are controlled through contractual arrangements would be deemed as foreign invested enterprises if they are ultimately “controlled” by foreign investors. Since the Foreign Investment Law and the Implementing Rules are relatively new, uncertainties still exist in relation to their interpretation and implementation, and it is still unclear how the Foreign Investment Law and the Implementing Rules would affect our VIE structure and business operation. See “—Risks Relating to Doing Business in China—Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and its implementing rules, and how they may impact our business, financial condition and results of operations.”

If our corporate structure and contractual arrangements are deemed by the MIIT or the MOFCOM or other regulators having competent authority to be illegal, either in whole or in part, we may lose control of our consolidated VIE and have to modify such structure to comply with regulatory requirements. However, there can be no assurance that we can achieve this without material disruption to our business. Further, if our corporate structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down our services;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to change our corporate structure and contractual arrangements;
- restricting or prohibiting our use of the proceeds from overseas offering to finance our consolidated VIE’s business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our consolidated VIE or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of such VIE in our consolidated financial statements. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiary in China or our consolidated VIE or its subsidiaries. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders.”

Contractual arrangements in relation to our consolidated VIE may be subject to scrutiny by the PRC tax authorities and they may determine that our consolidated VIE owes additional taxes, which could negatively affect our financial condition and the value of your investment.

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 PRC enterprise income tax 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 among our wholly-owned PRC subsidiary, our consolidated VIE and its shareholders 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 their 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 wholly-owned PRC subsidiary or consolidated VIE for PRC tax purposes, which could in turn increase their tax liabilities without reducing their tax expenses. In addition, if our wholly-owned PRC subsidiary requests the shareholders of our consolidated VIE to transfer their equity interests in our consolidated VIE at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject the relevant subsidiary to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our PRC subsidiary and consolidated VIE for adjusted but unpaid taxes according to applicable regulations. Our financial position could be materially and adversely affected if the tax liabilities of our PRC subsidiary and consolidated VIE 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 consolidated VIE that are material to the operation of our business if the entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Our consolidated VIE holds substantially all of our assets. Under the contractual arrangements, our consolidated VIE may not and its shareholders may not cause it to, in any manner, sell, transfer, mortgage or dispose of its assets or its legal or beneficial interests in the business without our prior consent. However, in the event that the shareholders of our consolidated VIE breach these contractual arrangements and voluntarily liquidate our consolidated VIE, or our consolidated VIE declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If our consolidated VIE undergoes 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.

If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations may be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including agreements and contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the State Administration for Market Regulation, or the SAMR, formerly known as the State Administration for Industry and Commerce, or the SAIC. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

We have three major types of chops—corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, and for legal letters. We use contract chops for executing leases and commercial contracts. We use finance chops generally for making and collecting payments, including issuing invoices. Use of corporate chops and contract chops must be approved by our legal department and administrative department and use of finance chops must be approved by our finance department. The chops of our subsidiary and consolidated VIE are generally held by the relevant entities so that documents can be executed locally. Although we usually utilize chops to execute contracts, the registered legal representatives of our subsidiary and consolidated VIE have the apparent authority to enter into contracts on behalf of such entities without chops, unless such contracts set forth otherwise.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the designated key employees of our legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we have approval procedures in place and monitor our key employees, including the designated legal representatives of our subsidiary and consolidated VIE, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our key employees or designated legal representatives could abuse their authority, for example, by binding our subsidiary and consolidated VIE with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations, and our business and operations may be materially and adversely affected.

Risks Relating to Doing Business in China

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

Substantially all of our operations are conducted in the PRC and all of our revenue is sourced from the PRC. Accordingly, our financial condition and results of operations are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC 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 government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, restricting the inflow and outflow of foreign capital, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC government also has significant authority to exert influence on the ability of a China-based issuer, such as our company, to conduct its business. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

Substantially all of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiary and consolidated VIE and their subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. Uncertainties due to evolving laws and regulations could impede the ability of a China-based issuer, such as our company, to obtain or maintain permits or licenses required to conduct business in China. In the absence of required permits or licenses, governmental authorities could impose material sanctions or penalties on us. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation. Furthermore, if China adopts more stringent standards with respect to environmental protection or corporate social responsibilities, we may incur increased compliance cost or become subject to additional restrictions in our operations.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. 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. These uncertainties may impede our ability to enforce the contracts we have entered into and/or our intellectual property rights and could materially and adversely affect our business, financial condition and results of operations.

The M&A Rules establishes complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the China Securities Regulatory Commission, or the CSRC, and the State Administration of Foreign Exchange, or SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules established, among other things, additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex. For example, the M&A rules require 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 if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. The approval from the MOFCOM shall be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the anti-monopoly enforcement authority when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the Prior Notification Rules, issued by the State Council in August 2008 is 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. Furthermore, as required by the Measures for the Security Review of Foreign Investment, promulgated by the National Development and Reform Commission and the MOFCOM on December 19, 2020 and effective as of January 18, 2021, investments in military, national defense-related areas or in locations in proximity to military facilities, or investments that would result in acquiring the actual control of assets in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, information technology, Internet products and services, financial services and technology sectors, are required to obtain approval from designated governmental authorities in advance. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from the MOFCOM or other governmental authorities, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Related to M&A and Overseas Listings.”

Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Investment Law and its implementing rules and how they may impact our business, financial condition and results of operations.

The VIE structure through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “—Risks Relating to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure”. The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015, or the 2015 Draft FIL, according to which, variable interest entities that are controlled via contractual arrangements would also be deemed as foreign-invested entities, if they are ultimately “controlled” by foreign investors. In March 2019, the PRC National People’s Congress promulgated the Foreign Investment Law, and in December 2019, the State Council promulgated the Implementing Rules to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules both became effective from January 1, 2020 and replaced the major previous laws and regulations governing foreign investments in the PRC. Pursuant to the Foreign Investment Law, “foreign investments” refer to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The Foreign Investment Law and the Implementing Rules do not introduce the concept of “control” in determining whether a company would be considered as a foreign-invested enterprise, nor do they explicitly provide whether the VIE structure would be deemed as a method of foreign investment. However, the Foreign Investment Law has a catch-all provision that includes into the definition of “foreign investments” made by foreign investors in China in other methods as specified in laws, administrative regulations, or as stipulated by the State Council, and as the Foreign Investment Law and the Implementing Rules are newly adopted and relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the Foreign Investment Law, the possibility cannot be ruled out that the concept of “control” as stated in the 2015 Draft FIL may be embodied in, or the VIE structure adopted by us may be deemed as a method of foreign investment by, any of such future laws, regulations and rules. If our consolidated VIE was deemed as a foreign-invested enterprise under any of such future laws, regulations and rules, and any of the businesses that we operate would be in any “negative list” for foreign investment and therefore be subject to any foreign investment restrictions or prohibitions, further actions required to be taken by us under such laws, regulations and rules may materially and adversely affect our business, financial condition and results of operations. Furthermore, if future laws, administrative regulations or provisions 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, business, financial condition and results of operations.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

PRC residents are subject to restrictions and filing requirements when investing in offshore companies. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." Pursuant to SAFE Circular 37, "control" refers to the act through which a PRC resident obtains the right to carry out business operation of, to gain proceeds from or to make decisions on a special purpose vehicle by means of, among others, shareholding entrustment arrangement. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. 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 making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. 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. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

Mr. Xiaojun Zhang, Mr. Jiayuan Lin and several other beneficial owners of our ordinary shares have completed the SAFE registration pursuant to SAFE Circular 37 in 2018. We have notified substantial beneficial owners of ordinary shares who we know are PRC residents of their filing obligation and other compliance obligations relating to offshore investment. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

Any failure to comply with PRC regulations regarding our employee share incentive plan 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 share incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who will be granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. We and our directors, executive officers and other employees who are PRC residents and who have been granted options are subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC residents are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We will make efforts to comply with these requirements upon completion of our initial public offering. However, there can be no assurance that they can successfully register with SAFE in full compliance with the rules. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under our share incentive plan or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprise in China and limit our wholly-foreign owned enterprise's ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC law.

We may rely on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements. Any limitation on the ability of our PRC operating subsidiaries to make payments to us may have a material adverse effect on our ability to conduct our business.

We are a holding company and may rely on dividends and other distributions on equity paid by our principal operating subsidiaries and on remittances from the consolidated VIE, for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund inter-company loans, service any debt we may incur outside of China and pay our expenses. When our principal operating subsidiaries or the consolidated VIE incur additional debt, the instruments governing the debt may restrict their ability to pay dividends or make other distributions or remittances to us. Furthermore, the laws, rules and regulations applicable to our PRC subsidiaries and certain other subsidiaries permit payments of dividends only out of their retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside at least 10% of its net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves, together with the registered capital, are not distributable as cash dividends. As a result of these laws, rules and regulations, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends, loans or advances. Certain of our subsidiaries did not have any retained earnings available for distribution in the form of dividends as of December 31, 2020. In addition, registered capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary.

Limitations on the ability of our consolidated VIE to make remittance to the wholly-foreign owned enterprise and on the ability of our subsidiaries to pay dividends to us could limit our ability to access cash generated by the operations of those entities, including to make investments or acquisitions that could be beneficial to our businesses, pay dividends to our shareholders or otherwise fund and conduct our business.

We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.

Under the PRC Enterprise Income Tax Law and its implementing rules, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. “De facto management body” refers to a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by foreign enterprises or individuals, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. If we were to be considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the Enterprise Income Tax Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. 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.”

Dividends paid to our foreign investors and gains on the sale of our ADSs or Class A ordinary shares by our foreign investors may become subject to PRC tax.

Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Any gain realized on the transfer of ADSs or Class A ordinary shares by such investors is also subject to PRC tax at a current rate of 10%, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our Class A ordinary shares or ADSs, and any gain realized from the transfer of our Class A ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or Class A ordinary shares by such investors may be subject to PRC tax (which in the case of dividends may be withheld at source) at a rate of 20%. Any PRC tax liability may be reduced by an applicable tax treaty. However, if we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our ADSs or Class A ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends paid to our non-PRC investors, or gains from the transfer of our ADSs or Class A ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in our ADSs or Class A ordinary shares may decline significantly.

We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.

On February 3, 2015, the State Administration of Taxation issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7. Pursuant to this Bulletin 7, an “indirect transfer” of assets, including non-publicly traded 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 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 taxes. 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 consists 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 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. 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. On October 17, 2017, the State Administration of Taxation promulgated the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Circular 37, which became effective on December 1, 2017. SAT Circular 37, among other things, simplified procedures of withholding and payment of income tax levied on non-resident enterprises.

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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 Bulletin 7 and SAT Circular 37. 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 Bulletin 7 and SAT Circular 37. As a result, we may be required to expend valuable resources to comply with Bulletin 7 and SAT Circular 37 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.

We are subject to restrictions on currency exchange.

All of our revenue is denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiary or consolidated VIE. Currently, our PRC subsidiary may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities. Since a significant amount of our future revenue and cash flow will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize cash generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, including holders of our ADSs, and may limit our ability to obtain foreign currency through debt or equity financing for our onshore subsidiary and consolidated VIE.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of the initial public offering to make loans to our PRC subsidiary and our consolidated VIE, or to make additional capital contributions to our PRC subsidiary.

In utilizing the proceeds of our initial public offering, we, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiary, which is treated as a foreign-invested enterprise under PRC laws, through loans or capital contributions. However, loans by us to our PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE and capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, and registration with other governmental authorities in China.

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, or Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, or Circular 59, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45. According to Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our initial public offering, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to our consolidated VIE and its subsidiaries, each a PRC domestic company. Meanwhile, we are not likely to finance the activities of our consolidated VIE and its subsidiaries by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our consolidated VIE and its subsidiaries.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiary or any consolidated VIE or future capital contributions by us to our PRC subsidiary. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiary or consolidated VIE and its subsidiaries when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency, including the proceeds we received from our initial public offering, and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund, or IMF, completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the 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 the Renminbi and the U.S. dollar in the future.

All of our revenue and substantially all of our costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of Renminbi may materially and adversely affect our results of operations and financial position reported in Renminbi when translated into U.S. dollars, and the value of, and any dividends payable on, the ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we receive from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our Class A ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount.

We could be adversely affected by political tensions between the United States and China.

Political tensions between the United States and China have escalated in recent years due to, among other things, the trade war between the two countries since 2018, the COVID-19 outbreak, the PRC National People's Congress' passage of Hong Kong national security legislation, the imposition of U.S. sanctions on certain Chinese officials from China's central government and the Hong Kong Special Administrative Region by the U.S. government, and the imposition of sanctions on certain individuals from the U.S. by the Chinese government, various executive orders issued by former U.S. President Donald J. Trump, such as the one issued in August 2020 that prohibits certain transactions with ByteDance Ltd., Tencent Holdings Ltd. and the respective subsidiaries of such companies, the executive order issued in November 2020 that prohibits U.S. persons from transacting publicly traded securities of certain "Communist Chinese military companies" named in such executive order, as well as the executive order issued in January 2021 that prohibits such transactions as are identified by the U.S. Secretary of Commerce with certain "Chinese connected software applications," including Alipay and WeChat Pay, as well as the Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures promulgated by China's Ministry of Commerce, or MOFCOM, on January 9, 2021, which will apply to Chinese individuals or entities that are purportedly barred by a foreign country's law from dealing with nationals or entities of a third country. Rising political tensions between China and the U.S. could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. The measures taken by the U.S. and Chinese governments may have the effect of restricting our ability to transact or otherwise do business with entities within or outside of China and may cause investors to lose confidence in Chinese companies and counterparties, including us. If we were unable to conduct our business as it is currently conducted as a result of such regulatory changes, our business, results of operations and financial condition would be materially and adversely affected.

Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets, and delisting China-based companies from U.S. national securities exchanges. In January 2021, after reversing its own delisting decision, the NYSE ultimately resolved to delist China Mobile, China Unicom and China Telecom in compliance with the executive order issued in November 2020, after receiving additional guidance from the U.S. Department of Treasury and its Office of Foreign Assets Control. These delistings have introduced greater confusion and uncertainty about the status and prospects of Chinese companies listed on the U.S. stock exchanges. If any further such deliberations were to materialize, the resulting legislation may have a material and adverse impact on the stock performance of China-based issuers listed in the United States such as us, and we cannot assure you that we will always be able to maintain the listing of our ADSs on a national stock exchange in the U.S., such as the NYSE or the Nasdaq Stock Market, or that you will always be allowed to trade our shares or ADSs.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection. In addition, the adoption of any rules, legislations or other efforts to increase U.S. regulatory access to audit information could cause uncertainty, and we could be delisted if we were unable to meet any PCAOB inspection requirement in time.

Our independent registered public accounting firm that issues the audit report included in this annual report filed with the SEC, as auditors of companies that are traded publicly in the U.S. and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the U.S. to undergo regular inspections by the PCAOB to assess its compliance with the laws of the U.S. and professional standards. According to Article 177 of the PRC Securities Law which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties. Because our auditors are located in the People's Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB. On May 24, 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects the U.S. regulators' heightened interest in this issue. In a statement issued on December 9, 2019, the SEC reiterated concerns over the inability of the PCAOB to conduct inspections of the audit firm work papers with respect to U.S.-listed companies that have operations in China, and emphasized the importance of audit quality in emerging markets, such as China. On April 21, 2020, the SEC and the PCAOB issued a new joint statement, reminding the investors that in investing in companies that are based in or have substantial operations in many emerging markets, including China, there is substantially greater risk that disclosures will be incomplete or misleading, and there is also a greater risk of fraud. In the event of investor harm, there is substantially less ability to bring and enforce SEC, DOJ and other U.S. regulatory actions, in comparison to U.S. domestic companies, and the joint statement reinforced past SEC and PCAOB statements on matters including the difficulty to inspect audit work papers in China and its potential harm to investors.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our consolidated financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in December 2020, the United States enacted the Holding Foreign Companies Accountable Act, or the HFCA Act, which includes requirements for the SEC to identify issuers whose audit reports are prepared by auditors that the PCAOB is unable to inspect or investigate because of restrictions imposed by non-U.S. authorities in the auditor's local jurisdiction, or covered issuers. The HFCA Act also requires public companies on this SEC list to certify that they are not owned or controlled by a foreign government and make certain additional disclosures on foreign ownership and control of such issuers in their SEC filings. Furthermore, the HFCA Act amends the Sarbanes-Oxley Act of 2002 to require the SEC to prohibit securities of any U.S. listed companies from being traded on any of the U.S. national securities exchanges, such as NYSE and Nasdaq Stock Market, or in the U.S. "over-the-counter" markets, if the auditor of the U.S. listed companies' financial statements is not subject to PCAOB inspections for three consecutive "non-inspection" years after the law becomes effective. While the SEC has not yet identified a list of issuers whose auditors are not subject to PCAOB inspections, the first such list could be released in early 2022. On March 24, 2021, the SEC announced the adoption of interim final amendments to implement the submission and disclosure requirements of the HFCA Act. In the announcement, the SEC clarifies that before any issuer will have to comply with the interim final amendments, the SEC must implement a process for identifying covered issuers. The announcement also states that the SEC staff is actively assessing how best to implement the other requirements of the HFCA Act, including the identification process and the trading prohibition requirements. Enactment of the HFCA Act and other efforts to increase the U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected. We cannot assure you that we will not be identified by the SEC as an issuer whose audit report is prepared by auditors that the PCAOB is unable to inspect or investigate. We cannot assure you that, once we have a "non-inspection" year, we will be able to take remedial measures in a timely manner, and as a result, and we cannot assure you that we will always be able to maintain the listing of our ADSs on a national stock exchange in the U.S., such as the NYSE or the Nasdaq Stock Market, or that you will always be allowed to trade our shares or ADSs.

If additional remedial measures are imposed on the "big four" PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging such firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

Starting in 2011, the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese accounting firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

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In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. In January 2014, the administrative law judge reached an initial decision to impose penalties on the firms including a temporary suspension of their right to practice before the SEC. The accounting firms filed a petition for review of the initial decision. On February 6, 2015, before a review by the commissioners of the SEC had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms. The audit committee is aware of the policy restriction and regularly communicated with our independent auditor to ensure compliance. If additional remedial measures are imposed on the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the U.S. with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our consolidated financial statements, our consolidated financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ADSs from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the U.S.

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You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China, based on United States or other foreign laws, against us, our directors, executive officers or the expert named in this annual report and therefore you may not be able to enjoy the protection of such laws in an effective manner.

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. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon us, our directors and executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Even if you obtain a judgment against us, our directors, executive officers or the expert named in this annual report in a U.S. court or other court outside China, you may not be able to enforce such judgment against us or them in China. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, the United Kingdom, Japan or most other western countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult or impossible. In addition, you may not be able to bring original actions in China based on the U.S. or other foreign laws against us, our directors, executive officers or the expert named in this annual report either. As a result, shareholder claims that are common in the U.S., including class action securities law and fraud claims, are difficult or impossible to pursue as a matter of law and practicality in China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local 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 regulatory cooperation with the securities regulatory authorities in the United States have not been efficient in the absence of mutual and practical cooperation mechanism. According to Article 177 of the PRC Securities Law which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties. While detailed interpretation of or implementation rules under Article 177 of the PRC Securities Law is not yet available, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by investors in protecting your interests. If an investor is unable to bring a U.S. claim or collect on a U.S. judgment, the investor may have to rely on legal claims and remedies available in China or other overseas jurisdictions where a China-based issuer, such as our company, may maintain assets. The claims and remedies available in these jurisdictions are often significantly different from those available in the United States and difficult to pursue. Therefore, you may not be able to effectively enjoy the protection offered by the U.S. laws and regulations that intend to protect public investors.

Risks Relating to Our ADSs

We have received a notice of non-compliance with continued listing standards from the NYSE for our ADSs. If we are unable to avoid the delisting of our ADSs from the NYSE, it could have a substantial effect on the trading price and liquidity of our ADSs.

On October 24, 2019, we received a notification letter, or the Notification Letter, from the NYSE indicating that we were not in compliance with Section 802.01A of the NYSE Listed Company Manual relating to the continued listing standards for stockholders, including (i) number of total stockholders of at least 400 or (ii) number of total stockholders of at least 1,200, if the average monthly volume is less than 100,000 (for the most recent 12 months). The Notification Letter also required us to provide a business plan that demonstrates how we expect to return to compliance with the relevant standards within a maximum period of 18 months from receipt of the Notification Letter. The Notification Letter did not affect our business operations and did not conflict with or cause an event of default under any of our material debt or other agreements.

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The NYSE has accepted our business plan and deemed us to have regained compliance with the NYSE's continued listing standards. However, there can be no assurance that we will be able to maintain compliance with the relevant requirements in the future. Failure to comply with the NYSE requirements could result in a decline in the price of our ADSs or a decline in investor confidence, which could directly impact our ability to efficiently raise capital. In addition, failure to adhere to NYSE requirements could result in trading suspension or delisting.

The trading price of our ADSs may be volatile, which could result in substantial losses to you.

The trading prices of our ADSs have fluctuated since we first listed our ADSs. Since our ADSs became listed on the NYSE on July 26, 2018, the trading prices of our ADSs ranged from US\$4.20 to US\$19.60 per ADS, and the last reported trading price on April 23, 2021 was US\$6.87 per ADS. The prices for our ADSs may continue to fluctuate 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 companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including technology companies and transaction service platforms, may affect the attitudes of investors toward Chinese companies listed in the U.S., which consequently may impact the trading performance of our 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 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. Furthermore, 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 U.S., China and other jurisdictions in late 2008, early 2009, the second half of 2011 and in 2015, which may have a material and adverse effect on the trading price of our ADSs.

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

- regulatory developments affecting us or our industry;
- announcements of studies and reports relating to the quality of our credit offerings or those of our competitors;
- changes in the economic performance or market valuations of other transaction service platforms;

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- 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;
- conditions in the markets for car buyers and for financing facilitation services;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional Class A 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 ADSs and trading volume could decline.

The trading market for our 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 covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our 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 ADSs to decline.

We may not pay additional cash dividends, so you may not receive any return on your investment unless you sell your Class A ordinary shares or ADSs for a price greater than that which you paid for them.

On April 22, 2019, our board of directors approved a special cash dividend of US\$0.125 per ordinary share (or US\$0.25 per American depository share) based on our outstanding ordinary shares. This special cash dividend aggregated approximately US\$37.9 million, of which US\$37.8 million was paid on May 28, 2019 (Eastern Time) to shareholders of record as of the close of trading on May 10, 2019 (Eastern Time). On April 22, 2020, our board of directors approved a special cash dividend of US\$0.125 per ordinary share (or US\$0.25 per American depository share) based on our outstanding ordinary shares. This special cash dividend aggregated approximately US\$37.9 million, of which US\$37.8 million was paid on May 18, 2020 (Eastern Time) to shareholders of record as of the close of trading on May 4, 2020 (Eastern Time). On March 11, 2021, our board of directors approved a special cash dividend of US\$0.50 per ordinary share (or US\$1.00 per American depository share) based on our outstanding ordinary shares. This special cash dividend aggregated approximately US\$151.4 million, of which US\$147.3 million was paid on April 8, 2021 (Eastern Time) to shareholders of record as of the close of trading on March 22, 2021 (Eastern Time). See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” Nonetheless, we currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we may not pay any additional cash dividends. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

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Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay additional dividends, the timing, amount and form 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 amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value in the future or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline significantly. As of December 31, 2020, we had 224,771,083 Class A ordinary shares and 74,978,677 Class B ordinary shares outstanding. All ADSs representing our Class A ordinary shares are freely transferable by persons other than our “affiliates” without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act. All of the other ordinary shares outstanding are available for sale, subject to volume and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act.

Certain major holders of our ordinary shares have the right to 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 our ADSs to decline significantly.

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You, as holders of ADSs, may have fewer rights than holders of our Class A ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under our amended and restated articles of association, the minimum notice period required to convene a general meeting is ten days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your Class A ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but there can be no assurance that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

Your rights to pursue claims against the depositary as a holder of ADSs are limited by the terms of the deposit agreement and the deposit agreement may be amended or terminated without your consent.

Under the deposit agreement, any action or proceeding against or involving the depositary, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding. Also, we may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended. See "Item 12. Description of Securities other than Equity Securities—D. American Depositary Shares" for more information.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the U.S. unless we register both the distribution and sale of 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 depositary will not make rights available to you unless both the distribution and sale of 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, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

You may not receive cash dividends or other distributions if the depositary determines it is illegal or impractical to make them available to you.

The depositary will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we may not pay any cash dividends. See “Dividend Policy.” To the extent that there is a distribution, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is illegal or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary 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 depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary 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.

Our third amended and restated memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders’ opportunity to sell their shares, including ordinary shares represented by our ADSs, at a premium.

We have adopted the third amended and restated articles of association, which became effective immediately prior to the completion of our initial public offering, that contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Class A ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our Class A ordinary shares and ADSs may be materially and adversely affected. In addition, our third amended and restated memorandum and articles of association contain other provisions that could limit the ability of third parties to acquire control of our company or cause us to engage in a transaction resulting in a change of control, including a provision that entitles each Class B ordinary share to 20 votes in respect of all matters subject to a shareholders’ vote.

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

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that holders and beneficial owners of ADSs irrevocably waive the right to a trial by jury in any legal proceeding arising out of or relating to the deposit agreement or the ADSs, including claims under federal securities laws, against us or the depository to the fullest extent permitted by applicable law. If this jury trial waiver provision is prohibited by applicable law, an action could nevertheless proceed under the terms of the deposit agreement with a jury trial. To our knowledge, the enforceability of a jury trial waiver under the federal securities laws has not been finally adjudicated by a federal court. However, we believe that a jury trial waiver provision is generally enforceable 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 non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a jury trial waiver provision, New York courts will consider whether the visibility of the jury trial waiver provision within the agreement is sufficiently prominent such that a party has knowingly waived any right to trial by jury. We believe that this is the case with respect to the deposit agreement and the ADSs. In addition, New York courts will not enforce a jury trial waiver provision in order to bar a viable setoff or counterclaim sounding in fraud or one which is based upon a creditor's negligence in failing to liquidate collateral upon a guarantor's demand, or in the case of an intentional tort claim, none of which we believe are applicable in the case of the deposit agreement or the ADSs. 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 provision of the federal securities laws. If you or any other holder or beneficial owner of ADSs brings 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, you or such other 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 and/or the depository. If a lawsuit is brought against us and/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, depending on, among other things, the nature of the claims, the judge or justice hearing such claims and the venue of the hearing.

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. Substantially all of our assets are located outside the United States. In addition, substantially all of our directors and executive officers and the experts named in this annual report reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, China or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) 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 may be narrower in scope or less developed than they would be under statutes or judicial precedent in some jurisdictions in the U.S. In particular, the Cayman Islands have a less developed body of securities laws than the U.S. 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.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under the third amended and restated memorandum and 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 of directors or controlling shareholders than they would as public shareholders of a company incorporated in the U.S.

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 U.S. that are applicable to U.S. domestic issuers, including: (i) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q, quarterly certifications by the principal executive and financial officers, or current reports on Form 8-K; (ii) the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act; (iii) 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 (iv) the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

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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 intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NYSE. 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. For example, U.S. domestic issuers are required to file annual reports within 60 to 90 days from the end of each fiscal year. 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.

We are an emerging growth company and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may 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 Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. We will take advantage of the extended transition period. As a result of this election, our financial statements may not be comparable to other public companies that comply with the public company effective dates for these new or revised accounting standards.

We have incurred and expect to continue to incur significant costs as a public company, which could lower our profits or make it more difficult to run our business.

As a public company, we have incurred and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company to ensure that we comply with the various requirements on corporate governance practices imposed by the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and NYSE.

For example, we have increased the number of independent directors and adopted policies regarding internal controls and disclosure controls and procedures. We have also incurred additional costs associated with our public company reporting requirements. We expect that these rules and regulations will continue to cause us to incur elevated legal and financial compliance costs, devote substantial management effort to ensure compliance and make some corporate activities more time-consuming and costly. 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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As a company with less than US\$1.07 billion in net revenues for our last financial year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. Once we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC.

In the past, shareholders of a public company often brought securities class action suits against companies following periods of instability in the market price of those companies’ securities. If we were involved in a class action suit, it 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 suit. 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 is a significant risk that we may be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

There are uncertainties in the application of the PFIC rules to a company with our particular business operations. However, based on the past and projected composition and classification of our income and assets, we believe that there is a significant risk that we were a PFIC for United States federal income tax purposes for 2020, and may be classified as a PFIC in future taxable years. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that our PFIC status may change due to changes in our asset or income composition.

In addition, there is uncertainty as to the treatment of our corporate structure and ownership of our consolidated VIE for United States federal income tax purposes. For United States federal income tax purposes, we consider ourselves to own the equity of our consolidated VIE. If it is determined, contrary to our view, that we do not own the equity of our consolidated VIE for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

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If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, our PFIC status could result in adverse United States federal income tax consequences to you if you are a United States Holder, as defined under “Item 10. Additional Information—E. Taxation—Certain United States Federal Income Tax Considerations.” For example, if we are or become a PFIC, you may become subject to increased tax liabilities under United States federal income tax laws and regulations, and will become subject to burdensome reporting requirements. See “Item 10. Additional Information—E. Taxation—Certain United States Federal Income Tax Considerations—Passive Foreign Investment Company.” There can be no assurance that we will not be a PFIC for the current or any future taxable year.

As a 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 NYSE corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards.

We are a company incorporated in the Cayman Islands, and our ADSs are listed on the NYSE. The NYSE market 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 the NYSE corporate governance listing standards.

For instance, we are not required to: (i) have a majority of the board be independent; (ii) have a compensation committee or a nominating and corporate governance committee consisting entirely of independent directors; or (iii) have regularly scheduled executive sessions with only independent directors each year.

We intend to rely on the three exemptions described above. As a result, you may not be provided with the benefits of certain corporate governance requirements of the NYSE.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We began operations in August 2010 through Shanghai Cango, which was founded under the laws of the PRC by a group of pioneers who built the first automotive finance business in China, SAIC-GMAC Automotive Finance Co., Ltd. We initially focused on providing automotive financing solutions to car buyers by connecting them to dealers and financial institutions through our platform. As of December 31, 2020, our platform had served 1,713,126 car buyers cumulatively since inception, and our dealer network was comprised of 48,487 registered dealers. We have also established partnerships with several financial institutions over time, including WeBank, MYbank, Bank of Shanghai, Shanghai Rural Commercial Bank, Jiangnan Rural Commercial Bank and ICBC. Led by an experienced and visionary management team, we have extended our services beyond the facilitation of automotive financing transactions and identified new ways to strengthen our platform and serve our customers. We started to provide automobile trading solutions in 2015 and after-market services facilitation in 2017.

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In October 2017, we incorporated Cango Inc. under the laws of the Cayman Islands, which has become our ultimate holding company, and subsequently, we established a wholly-owned subsidiary in Hong Kong, Cango Group Limited, to be our intermediate holding company. In January 2018, we established Can Gu Long as our wholly foreign owned subsidiary in China. Can Gu Long has entered into a series of contractual arrangements with Shanghai Cango and its shareholders, which allows us to exercise effective control over Shanghai Cango and receive substantially all the economic benefits of Shanghai Cango. We refer to the series of transactions described above as our Offshore Restructuring.

We completed the Acquisition of Shanghai Chejia at the end of September 2018. After the completion of the Acquisition, Shanghai Chejia became our wholly-owned consolidated subsidiary. In 2019, we acquired Shanghai Quanpin Automobile Sales Co., Ltd., which wholly owns Fushun Insurance Brokerage Co., Ltd., at a total cash consideration of RMB66.1 million. The purpose was to obtain the insurance brokerage license to enhance our after-market services facilitation business.

In June 2018, we, together with other investors, entered into a capital contribution agreement with Beijing Chehejia Information Technology Co., Ltd., or Chehejia, which offers premium smart electric SUVs. We subscribed for less than 1% equity interest in Chehejia at a cash consideration of RMB100.0 million. In January 2019, we subscribed for less than 2% equity interest in Chehejia at a cash consideration of RMB200.0 million. In July 2019, we further subscribed for less than 2% equity interest in Chehejia at a cash consideration of RMB206.3 million. In July 2019, Chehejia undertook a reorganization and became a consolidated variable interest entity of Li Auto, and we received equity interest in Li Auto in connection with such reorganization. Li Auto listed its ADSs on the NASDAQ under the symbol “LI” in July 2020. As of December 31, 2020, we held 39,194,413 Class A ordinary shares of Li Auto.

We completed three rounds of equity financing prior to the completion of our initial public offering. The first round of equity financing was completed in July 2017, and investors included Warburg Pincus Financial Global Ltd. and Primavera. The second round of equity financing was completed in March 2018, and investors included, among others, Tencent, Taikang Life Insurance and Didi Chuxing. We completed the third round of equity financing with Didi Chuxing and another investor in June 2018. Our ADSs, each representing two of our Class A ordinary shares, have been listed on the New York Stock Exchange since July 26, 2018 under the symbol “CANG.”

B. Business Overview

Overview

Who We Are

We are a leading technology-enabled automotive transaction service platform in China, connecting dealers, OEMs, car buyers and other industry participants. Our platform empowers and serves upstream and downstream of the automotive transaction value chain and offers comprehensive services, working together with platform participants to deliver simple and enjoyable car purchasing and ownership experience. We have extensive, technology-enabled service offerings that cover each key component of the automotive transaction value chain, including pre-sale automobile trading solutions, during-sale automotive financing facilitation services, and post-sale after-market services facilitation.

Our Vision and Roadmap to Our Vision

Our vision is to make automotive transactions simpler, easier and more pleasant. Automotive financing was originally our entry point to automotive transaction value chain, and by leveraging our deep expertise in automotive financing, we have accumulated core capabilities that allow us to capture opportunities in upstream and downstream of the automotive transaction value chain. For example, our customer acquisition channels include over 48,000 registered dealers, many of which are non-4S dealers that are under-covered by OEMs. In addition, we also established advanced technology-enabled infrastructure to empower platform participants, such as SaaS solution and CRM system for dealers, as well as automotive distribution network in lower tier cities. Equipped with unique capabilities and expertise in automotive industry, we are well positioned to expand our footprint into automobile trading business and further scale our business.

Our diversified customer acquisition channels enable us to acquire latest and first-hand knowledge of car buyers' automotive demand and preference. Leveraging our offline service expertise in lower-tier cities, we have built a distribution network that covers critical warehousing and logistics arrangements to realize the "last mile" delivery of transaction. Our industry knowledge, further empowered by technology and data insights, creates opportunities for us to develop a business transition to provide automobile trading solutions. Moreover, automobile trading capabilities enable us to achieve scalability in transaction volume, which is an important factor for attracting new business partners and creating future monetization opportunities. By participating on our scalable platform, our business partners are able to improve their operating efficiency and capture additional business opportunities. Our automotive financing facilitation, after-market service facilitation and other service offerings also can be attached to the automobile trading process, providing a one-stop platform for all key participants, simple and enjoyable car purchasing experience for car buyers, as well as multiple revenue streams for us.

We have been focusing on building a self-reinforcing ecosystem. Leveraging our well-established automotive transaction service platform, we are well positioned to engage more industry participants through our platform. As we facilitate more transactions, offer more solutions and services and create more value for them, we benefit from a self-reinforcing virtuous cycle, which further enhances our close-looped ecosystem. As such, we believe we offer core value propositions (i) for car dealers, as we match demand and supply to improve their car sourcing efficiency and enable them to access popular car models to better serve car buyers; (ii) for OEMs, as we expand sales channels to help them reach under-covered geographies through our vast dealer network; and (iii) for car buyers, as they will enjoy simple and pleasant one-stop car purchasing experience through our solution and service offerings.

Solutions and Service Offerings

We provide three types of services covering each key component of the automotive transaction value chain, including pre-sale automobile trading solutions, during-sale automotive financing facilitation and post-sale after-market services facilitation.

Automobile Trading Solutions

Automobile trading solutions will be the key catalyst to fuel our growth in the future. We provide car sourcing and logistics and warehousing support for dealers, which we refer to as B2B transactions, and facilitation of car purchases for car buyers, which we refer to as B2C transactions. In connection with B2B transactions, we aggregate demand from dealers, make bulk purchase of cars from OEMs and then arrange delivery of cars to the dealers. Our business model is nimble compared to a traditional automobile trading business, which is typically asset-heavy. We only make bulk purchase from OEMs when we have a high level of confidence on downstream demand, and such demand is backed by the deposits the dealers place with us. In addition, with average turnaround time of approximately less than 30 days, we are capable of self-funding the inventory working capital and hence do not have to rely on external leverage. Our ability to source cars from OEMs at attractive price and match demand of car buyers add tremendous value for the dealers in our network, addressing one of their major pain points. As such, this business further increases our market share at such dealers and their loyalty to us.

In B2C transactions, we collaborate with online automotive advertising platforms to help prospective car buyers find suitable cars in our dealer network while providing them with our financing solutions and after-market services. We also collaborate with third-party sales representatives, who identify leads through existing social networks in local communities and guide these leads to designated dealers in the region to convert into actual car purchase as well as other value-added services.

Our customer acquisition channels include both dealer network and third party sales representative. Our dealer network, consisting of over 48,000 registered dealers as of December 31, 2020, places us at the center of automotive transaction value chain and enables us to closely connect with car buyers. In the three months ended December 31, 2020, there were 19,667 active dealers in our dealer network, representing 40.6% of our registered dealers. In addition, we assembled a dedicated team of third-party sales representatives in 2020, which further deepens our coverage in lower-tier cities with more granularities, complementing existing coverage through dealer network. In 2020, our B2B and B2C transactions reached 4,999 new car transactions with a total transaction value of RMB624.8 million (US\$95.8 million), representing a significant year-on-year growth from RMB11.4 million in 2019.

Automotive Financing Facilitation Services

We provide automotive financing facilitation services primarily by connecting financial institutions and car buyers, leveraging our vast dealer network. Funding for such financing solutions is provided by either third-party financial institutions or our wholly-owned consolidated subsidiary. We also provide value-added services, such as assistance with administrative procedures associated with car purchasing and financing. We create value proposition for financial institutions, as we bring underserved customers in lower tier cities to financial institutions, as well as offer integrated solutions that support the full life cycle of automotive financing transactions, including credit origination, credit assessment, credit servicing and delinquent asset management services. We have established in-depth collaboration with 12 third-party financial institutions through two models, which we refer to as the direct partnership model and co-partnership model. We also create value proposition for car buyers, as we provide car buyers with comprehensive one-stop services. We facilitated the financing of 329,293 new and used car purchases with a total amount of financing transactions of RMB27.7 billion (US\$4.2 billion) in 2020.

After-market Services Facilitation

We facilitate the sale of insurance policies and other after-market services for car buyers. As of December 31, 2020, we collaborated with 16 insurance brokers and companies to facilitate the sale of their products, such as auto insurance, accident insurance and health insurance, to car buyers. We continue to explore opportunities to facilitate other after-market services on our platform, including additional types of insurance, extended warranties, car customization, maintenance and repair, and personal wealth management products.

New Strategic Initiatives

While we strategically started our business in lower-tier cities with primary focus on new car transactions and collaboration with traditional domestic OEMs, we have been developing new strategic initiatives, including expanding into top-tier cities to collaborate with 4S dealers, selected higher-end brands and new energy vehicle, or NEV, manufacturers. As we witness the emergence of NEVs in the automotive industry as the next-generation trend, we have consistently focused on developing our footprint in the NEV space through several strategic initiatives with NEV manufacturers. We collaborate with some major NEV brands, and our cooperation encompasses loan facilitation, insurance, leasing, as well as other services. NEV manufacturers typically do not have a large offline network. This creates a unique opportunity for us to provide offline services to NEV manufacturers and their customers by realizing the “last mile” of transaction, leveraging our nationwide network, operational expertise and industry knowhow. Moreover, we have steadfastly expanded our dealer coverage into higher-end market and 4S dealers, as this is a larger addressable market facing a customer base with superior creditworthiness.

We will continue investing and upgrading our dealer SaaS solutions, which cater to evolving needs of car dealers, by improving user interface and developing diversified modules and functions. We plan to improve dealers’ access to car sourcing channels and supply chain financing, as well as helping them to manage inventory and engage potential car buyers. In return, we will be able to acquire first-hand demand information from massive car dealers under our coverage and strengthen our negotiation power with OEMs, eventually resulting in more transactions, more monetization opportunities and enhanced leadership positions in the automotive transaction value chain.

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We continuously explore opportunities to collaborate with additional institutional funding partners. Since March 2020, we have collaborated with MYbank to facilitate financing transactions funded by a major commercial bank, and financing transactions facilitated under such arrangement accounted for 35.5% of the total amount of financing transactions facilitated in 2020.

Revenue Model and Financials

We receive sales revenue and fee income for our automobile trading solutions. In automotive financing, we charge financial institutions service fee based on a percentage of the principal amount of the relevant financing transactions. For our aftermarket services, we earn fixed service fee for facilitating the sale of different kinds of insurance products, such as accident insurances, automotive insurances and health insurances. We have experienced strong growth in our results of operations. Our revenues increased by 42.5% from RMB1,440.1 million in 2019 to RMB2,052.4 million (US\$314.5million) in 2020. Our net income increased significantly from RMB404.9 million in 2019 to RMB3,373.4 million (US\$517.0 million) in 2020.

Solutions and Service Offerings

We provide integrated solutions and services through our technology-enabled platform along the entire automotive transaction value chain. As such, our solutions and service offerings include pre-sale automobile trading solutions, during-sale automotive financing facilitation and post-sale aftermarket services facilitation. We primarily enable other platform participants to optimize their operations or secure better terms in transactions. The unique value proposition we bring to platform participants allows us to both solidify existing relationships and attract new participants to our platform. As we serve and interact with different types of platform participants, we gain further insights into them and capture new business opportunities.

Automobile Trading Solutions

We possess a large number of automotive transaction data, as we facilitate the distribution of automotive financing products. Utilizing these data, we are able to provide additional services, including car sourcing and logistics and warehousing support for dealers, which we refer to as B2B transactions, and facilitation of car purchases for car buyers, which we refer to as B2C transactions. By using our automobile trading solutions, dealers are also able to enjoy economies of scale in vehicle sourcing and logistics management. Similarly, our automobile trading solutions are also powered by our technology platform, aiming to maximize efficiencies.

- **B2B transactions:** Our B2B transaction services enable our registered dealers to access additional car sourcing channels and receive value-added services including logistics and warehousing support. We also offer SaaS solutions to strengthen our relationships with dealers. As a comprehensive tool kit to address dealers' pain points, our SaaS solutions allow dealers to conveniently source cars, manage inventory and engage potential car buyers. We started to significantly expand the number of B2B transactions in the third quarter of 2020. We aim to help non-4S dealers source cars cost-efficiently and help OEMs better address market demands across China, especially in lower-tier cities. As part of our SaaS solutions, we offer dealers a mobile application on which they can search and view car models available on our platform and place orders. We periodically update the selection of car models based on new car launches and demands by dealers. When placing an order, a dealer is required to pay a deposit, which represents a percentage of the total purchase price. We purchase cars from OEMs based on orders from dealers. Dealers are required to pay purchase prices in full and pick up cars from local warehouses maintained by OEMs or us before specific deadlines. If dealers fail to make timely payments, their deposits are forfeited and we will seek to sell the relevant cars to other buyers.
- **B2C transactions:** As of December 31, 2020, we were in collaboration with six online automotive advertising platforms to facilitate car purchases for car buyers. We assist prospective car buyers to find suitable cars in our vast dealer network according to each car buyer's unique preference. The service also enables our registered dealers to tap into the large user base of the online automotive advertising platforms. We do not charge car buyers or dealers fees for facilitating B2C transactions. Nonetheless, we generate income by facilitating financing for such B2C transactions. In addition, we also maintain regular contact with prospective car buyers who have indicated interest in purchasing a car but have not been able to locate a suitable one in our dealer network. We aim to convert some of them into our customers in the future. Our frequent contacts with these prospective car buyers and deep insights into their needs may also bring us additional cross-selling opportunities in the future.

Automotive Financing Facilitation Services

Automotive financing facilitation services primarily involve facilitating financing transactions from financial institutions to car buyers. For financial institutions, we offer integrated solutions that support the full life cycle of automotive financing transactions, including credit origination, credit assessment, credit servicing and delinquent asset management services. For car buyers, we facilitate financing transactions that make their car purchases more affordable, and we also assist them in handling administrative procedures in relation to car purchasing and financing. We leverage our large nationwide dealer network in providing the services to financial institutions and car buyers. In addition, our focus on technology-driven process also allows us to serve our customers in a highly efficient manner, achieving average credit decision time of less than two hours for financing transactions we facilitate.

Services Provided to Financial Institutions

- **Credit origination:** We arrange marketing campaigns of financial institutions' automotive financing solutions at the sites of our registered dealers. We utilize our sales team, dealer financial managers, sales agents and sales representatives to promote automotive financing solutions and explain the key terms to prospective car buyers. We provide credit application forms to, and collect completed applications from, prospective car buyers. Our technology enables electronic submission of 100% of these credit applications through either mobile applications or webpages by our sales team, dealer financial managers or sales agents. By integrating our IT system with those of financial institutions, we are able to provide them updates as to the number and the amount of financing transactions that we help them underwrite on a real time basis.

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- **Credit assessment:** We conduct a thorough credit assessment of each applicant using our credit assessment model and have our credit assessment team conduct a manual evaluation when necessary. To assist financial institutions in making ultimate credit decisions, we refer qualified credit applications to such financial institutions, which perform independent credit assessment. We have in-depth collaboration with financial institutions and incorporate the credit policies and standards of these financial institutions into our credit assessment system. Our IT system is also highly integrated with financial institutions with which we directly collaborate. As such, we provide significant value to facilitate the ultimate credit decision making process of financial institutions by enhancing its efficiency. For example, it only takes less than two hours on average from submission of credit application to credit decision. In some instances, credit decisions can be provided in less than half an hour.
- **Credit servicing:** Once the credit application is approved, we coordinate with the car buyer and the financial institution to execute the necessary financing documents, in most cases electronically. Upon execution of the financing documents, the financial institution will remit the funds to the relevant dealer to close the transaction. Car buyers are required to designate specific bank accounts to make repayments. We also assist financial institutions in setting up electronic repayment instructions for car buyers to wire the repayments to financial institutions periodically as well as sending periodical reminders to car buyers ahead of each repayment due date. By integrating our IT system with those of financial institutions, we are also able to monitor repayments continuously and share with financial institutions information as to car buyer delinquencies and vehicle locations on a real time basis.
- **Delinquent asset management:** We help financial institutions collect repayments and recover collaterals for financing transactions that have become delinquent, with the aim to cost-effectively recover value. Our delinquent asset management process consists of six distinct stages, namely automated reminders, live phone calls, in-person visits, recovery, disposal and legal actions. We have established a nationwide network of external counsel to supplement our own resources. Our in-house team is also closely involved in each stage of the delinquent asset management process to ensure compliance with the relevant laws and regulations.

We charge financial institutions service fees for credit origination, credit assessment and credit servicing. These service fees are typically based on a percentage of the principal amount of the relevant financing transaction. We charge certain financial institutions additional fees for our delinquent asset management services.

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Services Provided to Car Buyers

- Automotive Financing Solutions:** We assist car buyers in obtaining the appropriate financing package for purchasing a car, including introduction of automotive financing solutions of third-party financial institutions that we partner with. These automotive financing solutions are structured as either loans or financing leases. We also facilitate financing leases to car buyers through Shanghai Chejia, an entity which became our wholly-owned consolidated subsidiary at the end of September 2018. In 2020, 92.3% of the amount of financing transactions we facilitated were used for purchasing new cars, while the rest were used for used car purchases. The table below sets forth a breakdown of the total amount of financing transactions facilitated by funding sources, both in absolute amount and as a percentage of the total amount facilitated, in the periods presented:

	Year ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Financing transactions funded by third-party financial institutions	19,937,411	91.8	25,969,896	92.6	27,161,201	4,162,636	98.1
Financing transactions funded by Shanghai Chejia	1,781,983	8.2	2,084,397	7.4	536,538	82,228	1.9
Total	21,719,395	100.0	28,054,293	100.0	27,697,739	4,244,864	100.0

The table below sets forth the number of credit applications we processed and the number of financing transactions we facilitated in the periods presented.

	Three months ended							
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
	2019				2020			
Number of credit applications	128,243	121,307	110,331	173,059	74,339	92,711	131,037	180,811
Number of financing transactions facilitated	99,242	87,947	79,728	123,223	57,905	63,541	86,329	121,518

- Purchase Facilitation:** Leveraging our knowledge of automotive transactions, we offer car buyers various value-added services associated with purchasing cars with financing. Such services mainly involve registrations of license plates and collaterals with the relevant government authorities. Car buyers tend to be unfamiliar with the rules and procedures for making such registrations, and we believe our services significantly improve car buyers' experience in purchasing cars with financing.

We may charge car buyers a fee for providing value-added services in certain instances. In addition, we recognize leasing income relating to financing leases funded by Shanghai Chejia.

After-market Services Facilitation

Our platform also facilitates after-market services to car buyers, which is primarily comprised of facilitating the sale of insurance policies from insurance brokers or companies. Our scale and our ability to provide an effective channel for insurance brokers and companies to acquire customers has enabled us to negotiate more favorable premium for car buyers. The products currently offered through our platform are accident insurances, automotive insurances and health insurances. We earn service fees for facilitating the sale of such insurance products. We believe we are able to understand the needs of car buyers and deliver competitively priced products that resonate with car buyers. In 2020, we formed a key account sales team and call center, which helped us drive the growth of insurance facilitation business. We will continue to explore and identify opportunities to facilitate other after-market services, including additional types of insurances, extended warranties, car customization, maintenance and repair, and personal wealth management products.

Our Relationships with Our Platform Participants

As the leading automotive transaction service platform in China, we connect dealers, financial institutions, car buyers and other participants such as insurance brokers and companies, online automotive advertising platforms and OEMs. As of December 31, 2020, our platform connected 48,487 registered dealers, 12 third-party financial institutions and 36 other industry participants, and had served 1,713,126 car buyers cumulatively since inception. The scale of our platform has a network effect that further strengthens our ability to serve each party on our platform. We believe that by leveraging our technological capabilities and strong relationships with our customers and business partners, we will be able to transform the automotive and mobility markets in China.

Dealers

Our extensive dealer network is the foundation of our platform, and we closely collaborate with our registered dealers when we provide services to financial institutions and car buyers. At the same time, we help dealers increase their sales and source additional car buyers for them. We also enable B2B transactions for our registered dealers by providing additional car sourcing channels and value-added services including logistics and warehousing support. We launched dealer SaaS solutions in May 2018, which allow dealers to conveniently source cars, manage inventory and engage potential car buyers. Such full-process services significantly strengthen our relationships with dealers, which in turn enhance the value of our platform to financial institutions and car buyers.

As of December 31, 2020, our dealer network was comprised of 48,487 registered dealers. As of the same date, our extensive dealer network covered 344 cities and all province-level administrative regions in China. As of December 31, 2020, 37,916 of our dealers were new car dealers.

We manage our dealer network through a dedicated in-house sales team of 2,053 employees as of December 31, 2020. Our sales team is supervised by 20 regional offices, which are in turn supervised by our headquarters. Responsibilities of our sales team include sourcing and preliminary review of new dealers, management of relationships with registered dealers and on-the-ground customer support. Responsibilities of regional offices include management of regional dealer networks, management of our sales team and organizing regional marketing campaigns. Responsibilities of our headquarters include, among other things, review and approval of new dealers, periodic review of existing dealers and management of dealer database. We have implemented an incentive scheme for members of our sales team based on their performance, and we monitor performance data on a real-time basis through our electronic sales management system.

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Our sales team also utilizes a sales management system to engage new dealers and monitor existing dealers. The system maintains a comprehensive list of dealers across China, and we continually update this list based on information obtained from online automotive advertising platforms, OEMs as well as government sources. Based on the list, we analyze the penetration rate of our dealer network in each region, screen dealers which are suitable for our dealer network and proactively engage these dealers.

To ensure the quality of our dealer network as well as prevent potential fraud risk, we have implemented a rigorous procedure to screen dealers based on the dealer's licensing status, operation history, scale, location and various other factors. We maintain an internal blacklist of fraudulent dealers, and we also use a third-party database to identify whether a dealer has been involved in significant lawsuits. Our screening procedure involves an on-site visit, during which our sales team interviews the dealership manager, examines the dealer's business licenses and makes inquiries about its business. Our sales team records its findings electronically in our sales management system and submits the findings electronically to a group of around ten supervisors based in our headquarters, who make the final decision as to whether the dealer can join our network.

Through our sales management system, we constantly monitor and evaluate the performance of all of our registered dealers, including factors such as their productivity and credit quality of financing transactions originated through them. To maintain operational efficiency, we terminate relationships with registered dealers that fail to meet our performance expectations. The following table sets forth the total number of our registered dealers as of the dates indicated and the number of active dealers during the periods indicated as a percentage of the total number of our registered dealers as of the end of such periods.

	As of / in the three months ended							
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
Registered dealers at end of period	47,879	48,367	49,396	49,238	45,688	44,521	46,248	48,487
Active dealers (%)	36.6	35.5	35.1	43.0	32.7	34.3	38.7	40.6

As of December 31, 2020, there were 48,487 dealers in our dealer network, and the number of active dealers in the fourth quarter of 2020 represented 40.6% of the total numbers of dealers as of December 31, 2020.

The following table sets forth a breakdown of the number of registered dealers in our dealer network by location, both in absolute terms and as a percentage of the total number of registered dealers, as of the dates indicated.

	As of December 31,					
	2018		2019		2020	
	Number	%	Number	%	Number	%
Tier-one and tier-two cities	12,684	27.2	13,536	27.5	13,014	26.8
Lower-tier cities	33,881	72.8	35,702	72.5	35,473	73.2
Total	46,565	100.0	49,238	100.0	48,487	100.0

We collaborate with two types of dealers, namely 4S dealers and non-4S dealers. Each 4S dealer sells products exclusively from one OEM and adopts store designs specified by such OEM. 4S dealers cover a comprehensive set of functions, including auto sales, spare parts, after-sale services and customer surveys. In contrast, non-4S dealers only cover auto sales and after-sales services, but not spare parts or customer surveys. A non-4S dealer does not have an exclusivity arrangement with any individual OEM and tends to sell cars from multiple OEMs. A non-4S dealer may sell new cars, used cars or both. Non-4S dealers tend to have smaller scale of operations and lack connections with OEMs and financial institutions. As such, non-4S dealers tend to lack stable sources to purchase cars by themselves or find financing solutions for car buyers, and we are well positioned to create significant value for such dealers.

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The following table sets forth a breakdown of the number of registered dealers by type, both in absolute terms and as a percentage of the total number of registered dealers, as of the dates indicated.

	As of December 31,					
	2018		2019		2020	
	Number	%	Number	%	Number	%
4S dealers	8,342	17.9	9,231	18.7	9,214	19.0
Non-4S dealers	38,223	82.1	40,007	81.3	39,273	81.0
Total	46,565	100.0	49,238	100.0	48,487	100.0

Our sales team actively manages our dealer network through frequent on-site visits and timely updates of product offerings on our platform. We manage our dealer network through three models, namely the self-operated sales model, dealer financial manager model and sales agent model.

- *Self-operated sales model.* Under this model, a dealer's sales personnel makes the initial introduction of our automotive financing solutions to a prospective car buyer. If a prospective car buyer expresses interest in such solutions, the dealer contacts a member of our in-house sales team, who will come to the dealer's store and explain the terms of our automotive financing solutions to the prospective car buyer and offers assistance in completing the credit application. Our sales team then uploads the credit application to our online system for our credit assessment team to evaluate.
- *Dealer financial manager model.* A certain number of dealers, especially 4S dealers, employ dealer financial managers, who have received training from us with respect to the automotive financing solutions on our platform. Dealer financial managers are capable of explaining the terms of our automotive financing solutions to prospective car buyers and addressing their questions. As such, our sales team is generally not directly involved in credit origination under this model. The dealer financial managers are responsible for assisting prospective car buyers in completing the credit applications and submitting them to our credit assessment team.
- *Sales agent model.* As we expand into certain cities, we may collaborate with local sales agents that already have established local dealer networks. We provide trainings to sales agents' employees with respect to the automotive financing solutions on our platform. Sales agents are responsible for explaining the terms of the automotive financing solutions to prospective car buyers and collecting credit applications from them. Our sales staff screens these sales agents to evaluate their qualifications, and we only work with sales agents who we believe will interact with prospective car buyers professionally. Sales agents receive service fees from financial institutions and, in some instances, from us as well. We do not collaborate directly with dealers under this model.

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The following table sets forth a breakdown of the number of registered dealers by dealer coverage model, both in absolute terms and as a percentage of the total number of registered dealers, as of the dates indicated.

	As of December 31,					
	2018		2019		2020	
	Number	%	Number	%	Number	%
Self-operated sales model	41,411	88.9	46,586	94.6	45,990	94.9
Dealer financial manager model	1,055	2.3	879	1.8	1,958	4.0
Sales agent model	4,099	8.8	1,773	3.6	539	1.1
Total	46,565	100.0	49,238	100.0	48,487	100.0

The following table sets forth the breakdown of the total amount of financing transactions we facilitated by dealer coverage model, both in absolute amount and as a percentage of the total amount of financing transactions we facilitated, for the periods presented.

	For the year ending December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Self-operated sales model	18,333,271	84.4	26,030,152	92.8	25,364,140	3,887,225
Dealer financial manager model	1,916,017	8.8	1,555,218	5.5	2,270,661	347,994
Sales agent model	1,470,106	6.8	468,923	1.7	62,938	9,645
Total	21,719,395	100.0	28,054,293	100.0	27,697,739	4,244,864

We implemented a change in our dealer coverage model in 2018, and our sales team has started to cover a significant number of dealers that were previously covered by dealer financial managers, who are dealers' employees, or by sales agents. In contrast to dealer financial managers, we are able to directly control and communicate with our sales team, which is expected to execute our sales strategy more effectively and deliver higher quality services to car buyers.

To efficiently manage our sales efforts, we have developed a mobile application for our in-house sales team, dealer financial managers and sales agents. The mobile application enables personnel involved in our sales efforts to submit credit applications on behalf of prospective car buyers and monitor the status of such credit applications. We also utilize the mobile application to assign tasks to such personnel and collect their performance data on a real-time basis.

Given the importance of dealers to the origination process, dealers typically receive commissions for financing transactions facilitated, which are based on a percentage of the principal amount of the relevant financing transaction. A dealer may receive commissions from us or the relevant financial institution, depending on the arrangement among us, the dealer and the relevant financial institution.

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We started to collaborate with independent sales representatives in 2020 to enhance our sales efforts. Sales representatives introduce our solutions, such as automotive finance solutions and insurance facilitation services, to prospective car buyers and car owners and generate leads to our platform. Sales representatives refer prospective car buyers to registered dealers covered under self-operated sales model, where our in-house sales team assist prospective car buyers to complete credit applications. Sales representatives also help individuals who are interested in the insurance policies on our platform purchase such products through the mobile Internet.

As of December 31, 2020, we were in collaboration with more than 7,000 independent sales representatives. We plan to engage more independent sales representatives in the future. We implement a rigorous screening process, which includes in-person interviews and background checks, to identify qualified sales representatives. We pay commissions to sales representatives for transactions facilitated by them.

Financial Institutions

Financial institutions are important business partners to our platform. We act as the gateway for financial institutions into the rapidly growing automotive finance industry in China. Traditional financial institutions typically lack the necessary technology, human resources and/or geographic reach to provide automotive financing on a nationwide scale, especially within lower-tier cities. Our services enable financial institutions to broaden their reach to car buyers and dealers through our extensive dealer network across China. Our collaboration with financial institutions has enabled us to scale up our business and facilitate a large number of financing transactions without straining our own capital resources.

Third-party financial institutions fund a major portion of financing transactions that we facilitate to car buyers, and we also facilitate financing leases funded by Shanghai Chejia. We collaborate with third-party financial institutions in facilitating financing transactions under two models, which we refer to as the direct partnership model and co-partnership model, respectively. We receive service fees from financial institutions for facilitating automotive financing transactions to car buyers. As of December 31, 2020, we were in collaboration with 12 third-party financial institutions.

The table below sets forth a breakdown of the total amount of financing transactions funded by third-party financial institutions and Shanghai Chejia, both in absolute amount and as a percentage of the total amount facilitated, in the periods presented:

	For the year ending December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
(in thousands, except for percentages)							
Financing transactions funded by third-party financial institutions:							
Direct partnership model	10,832,748	49.8	20,851,684	74.4	17,248,796	2,643,494	62.3
Co-partnership model	9,104,663	42.0	5,118,212	18.2	9,912,405	1,519,142	35.8
Total financing transactions funded by third-party financial institutions	19,937,411	91.8	25,969,896	92.6	27,161,201	4,162,636	98.1
Financing transactions funded by Shanghai Chejia	1,781,983	8.2	2,084,397	7.4	536,538	82,228	1.9
Total	21,719,395	100.0	28,054,293	100.0	27,697,739	4,244,864	100.0

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The table below sets forth a breakdown of the total outstanding principal of financing transactions funded by third-party financial institutions and Shanghai Chejia, both in absolute amount and as a percentage of the total outstanding amount facilitated, as of the date presented:

	For the year ending December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Outstanding principal of financing transactions funded by third-party financial institutions:							
Direct partnership model	20,733,146	60.5	26,734,880	66.8	29,367,657	4,500,791	67.5
Co-partnership model	11,540,508	33.7	10,533,733	26.3	12,311,059	1,886,752	28.3
Total outstanding principal of financing transactions funded by third-party financial institutions	32,273,655	94.2	37,268,613	93.1	41,678,716	6,387,543	95.8
Outstanding principal of financing transactions funded by Shanghai Chejia	1,982,722	5.8	2,763,137	6.9	1,826,119	279,865	4.2
Total	34,256,376	100.0	40,031,750	100.0	43,504,835	6,667,408	100.0

Direct Partnership Model

Under the direct partnership model, we cooperate with the financial institution that would typically view automotive financing as an important part of its growth strategy and is therefore willing to commit a significant amount of capital to fund automotive financing transactions, which we would in turn facilitate. Recognizing the strategic value of its commitment, we connect our IT system directly with the financial institution, which allows us to structure the credit underwriting process at a highly customized level according to the needs of the financial institution. We currently maintain such arrangements with 11 financial institutions, such as MYbank, Bank of Shanghai, Shanghai Rural Commercial Bank, Jiangnan Rural Commercial Bank and ICBC. Financing transactions relating to our collaboration with MYbank and Bank of Shanghai accounted for a major portion of the financing transactions facilitated under direct partnership model in 2020.

Pursuant to our agreements with MYbank, we collaborate with MYbank to facilitate financing transactions funded by a major commercial bank for car buyers. We receive service fees for credit origination, credit assessment and credit servicing from MYbank based on a percentage of the outstanding balance of relevant financing transactions. In addition, while MYbank offers such major commercial bank risk assurance up to a certain percentage of the total principal amount of financing transactions facilitated under such arrangement, we, in turn, are obligated to compensate MYbank for its payouts in connection with such obligation. After making such payment, security interest in the relevant collateral is also transferred to us. The term of the agreement with MYbank is one year from March 2021 and can be automatically renewed for another year.

Pursuant to our agreement with Bank of Shanghai, we receive service fees for credit origination, credit assessment and credit servicing based on a percentage of the total outstanding balance of the relevant financing transactions. In addition, we are obligated to repay the overdue loans upon certain specified events of default by car buyers. After making such payment, security interest in the relevant collateral is also transferred to us. The term of the agreement with Bank of Shanghai has expired in December 31, 2019 and has been automatically renewed for three years. The agreements may be terminated for cause, such as breach of contract or liquidation or dissolution. The agreement with Bank of Shanghai may also be terminated without cause by 90 days' written notice.

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Co-partnership Model

We started to collaborate with WeBank in 2017 to facilitate financing transactions with funding provided by WeBank and other financial institutions. Such arrangements allow us to expand the number of financial institutions we collaborate with in a highly efficient manner. As of December 31, 2020, we were in collaboration with several financial institutions under the co-partnership model.

Pursuant to our agreements with WeBank renewed in 2021, WeBank pays us service fees for credit origination, credit assessment and credit servicing based on a percentage of the outstanding balance of relevant financing transactions. In addition, we are obligated to purchase the relevant financing receivables from financial institutions upon certain specified events of default by car buyers up to a certain percentage of the total outstanding amount of financing transactions facilitated under such arrangement. After purchasing such financing receivables, security interest in the relevant collateral is also transferred to us. The agreements' term will expire in April 2022 and are automatically renewable for one year. The agreements may be terminated by either party for cause, such as breach of contract.

Financing Leases

Shanghai Chejia funds financing leases with its own capital as well as debt financing provided by Bank of Shanghai and several other institutions. The financing leases are recorded on Shanghai Chejia's balance sheet as financing lease receivables. In 2019 and 2020, the amount of financing leases funded by Shanghai Chejia was RMB2,084.4 million and RMB536.5 million (US\$82.2 million), respectively. As of December 31, 2019 and 2020, the outstanding principal of financing leases funded by Shanghai Chejia was RMB2,763.1 million and RMB1,826.1 million (US\$279.9 million), respectively.

Car Buyers

We seek to deliver automotive financing solutions to creditworthy car buyers who are underserved by traditional financial institutions. Leveraging the resources on our platform, we offer automotive financing solutions to car buyers that make their dream of purchasing a car a reality. In addition to automotive financing solutions, our platform also offers financing related value-added services and facilitates after-market services such as insurance products.

As of December 31, 2020, our platform had served 1,713,126 car buyers cumulatively since inception, and a majority of such car buyers were from lower-tier cities. Lower-tier cities in China have demonstrated strong growth potential for automotive transactions. However, car buyers in lower-tier cities tend to be underserved by traditional financial institutions due to lack of credit records and banking infrastructure coverage, which offers opportunities for technology-enabled service platforms to address the demand from car buyers and expand in these cities.

We acquire car buyers primarily through our registered dealers. In addition, we collaborate with online automobile advertising platforms and sales representatives in gathering leads. In 2019 and 2020, we facilitated a total of 390,140 and 329,293 of financing transactions, respectively, of which over 99% and 98% came from applicants we engaged through our registered dealers, respectively, with the remainder coming from applicants we engaged online through platforms we collaborate with or offline through sales representatives.

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In each of 2019 and 2020, approximately 74% and 68% of car buyers who utilized our automotive financing solutions were married, and approximately 74% and 75% of car buyers who utilized our automotive financing solutions were aged between 20 and 40. In 2019 and 2020, approximately 79% and 76% of car buyers who utilized our automotive financing solutions were male, respectively.

We remain in contact with many car buyers even after their automotive loans or financing leases are repaid. We place phone calls or provide notifications to car buyers regarding additional automotive financing solutions through our mobile application Car Owner eGeneration, if we believe they may become interested in purchasing a new car, or to offer them other after-market services, particularly insurance products.

Other Platform Partners

- **Insurance Brokers and Companies:** We are able to provide access to a large number of car buyers for insurance brokers and companies, making us a natural and highly efficient partner for them to promote their insurance products. As of December 31, 2020, we were in collaboration with 16 insurance brokers and companies, including our strategic investor, Taikang Life Insurance. The insurance products currently offered through our platform are related to accident insurances, health insurances and automotive insurances. We plan to collaborate with additional insurance brokers and companies to facilitate the offering of more insurance policies.
- **Online Automotive Advertising Platforms:** We collaborate with leading online automotive advertising platforms to tap into the large user base of these platforms. Users who are interested in our automotive financing solutions are directed to our call center, which is staffed with around 140 dedicated employees as of December 31, 2020. Our call center staff further explains our solutions to the user and assists the user in finding a suitable car in our dealer network. We fund financing transactions to car buyers engaged online through Shanghai Chejia. We view online automotive advertising platforms as alternative channels to engage car buyers, and we plan to continually explore new opportunities to collaborate with these and other platforms.
- **OEMs:** Some of the financing transactions we facilitate are part of OEM-sponsored subsidy programs. We enable collaboration between OEMs and financial institutions to design low-interest financing solutions for car buyers. As of December 31, 2020, 14 OEMs participated in our platform by subsidizing low-interest financing transactions that we facilitate. Our platform creates significant value for OEMs, as we help them extend their sales channels through our vast dealer network, and our automotive financing solutions make their cars more affordable to prospective car buyers. We plan to broaden the offering of subsidized financing solutions through collaboration with foreign and sino-foreign joint venture OEMs as well as national banks. As the financing solutions will be marketed to prospective car buyers with stronger credit profiles, we expect to seize new market opportunities while improving our credit performance through such strategy. We started to significantly expand the number of automobile trading transactions in the third quarter of 2020. In connection with such transactions, we purchase cars from OEMs based on orders from dealers and on-sell cars to the relevant dealers. We aim to help OEMs better address market demands across China, especially in lower-tier cities.

Our Partnership with Didi Chuxing

We have established a strategic partnership with Didi Chuxing, a leading ride-sharing technology company. We expect such strategic partnership to provide us with valuable channels to serve drivers and other participants of Didi Chuxing's platform in China. Through a series of equity investments in the first half of 2018, Didi Chuxing has become a strategic shareholder of our company, and as of December 31, 2020, it beneficially owned 28,376,116 Class A ordinary shares, representing 9.7% of our issued and outstanding shares. For further information, see "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

On July 9, 2018, we and Didi Chuxing entered into a business cooperation agreement, which provides the framework for our strategic partnership. Pursuant to the agreement, the two parties grant each other a priority right with respect to cooperation in the area of automotive financing services, provided that third parties do not offer more favorable terms. In addition, we and Didi Chuxing agree to develop comprehensive solutions that are oriented towards users of Didi Chuxing's platform in areas such as vehicle sourcing and automotive financing. The two parties will also explore cooperation in certain other areas such as insurance facilitation, GPS installations and big data analysis. The specific terms of cooperation will be provided under separate agreements that we and Didi Chuxing enter into from time to time. As of December 31, 2020, we had established 28 subsidiaries in key ride-sharing cities across China for Didi Chuxing. In 2020, we served 509 licensed Didi Chuxing drivers by providing them with comprehensive solutions including automotive financing and insurance facilitation. In addition, Didi Chuxing's users and drivers who plan to purchase cars can access our services through Didi Chuxing's mobile application. The arrangement offers us new opportunities to facilitate car sales.

Credit Underwriting and Risk Management

We view credit underwriting and risk management as core components of our business operations. We undertake these functions as part of facilitating automotive financing.

Credit Underwriting Process

Our typical process of loan facilitation for a financial institution include the following components:

- (1) After receiving the credit application from a car buyer, we utilize our credit assessment system to perform the initial evaluation. To assist financial institutions in making ultimate credit decisions, we refer qualified credit applications to such financial institutions, which perform independent credit assessment.
- (2) After the credit application is approved, the car buyer enters into a loan agreement with the financial institution. The car buyer is required to make the down payment to the dealer. On behalf of the car buyer, the financial institution pays the purchase price of the car, net of the down payment, to the dealer.

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- (3) The car buyer is required to pledge the car as collateral in favor of the financial institution. The pledge is registered with local government authorities.
- (4) The financial institution pays us service fees. A dealer may receive commissions from us or the relevant financial institution, depending on the arrangement among us, the dealer and the relevant financial institution.
- (5) In the form of automatic payments, the car buyer repays principal and interest in installments to the financial institution. The financial institution's security interest in the collateral is released upon the full repayment of the loan.

We also facilitate financing leases, which are mainly structured using sale-and-leaseback method. We apply the same credit assessment process in facilitating financing leases as in facilitating loans. Shanghai Chejia takes the role of a lessor in a financing lease transaction. Once a car buyer's lease application is approved, the car buyer utilizes financing provided by the lessor to purchase a car from the dealer. The car buyer is then contractually required to transfer the ownership of the car to the lessor which the lessor then leases back to the relevant car buyer in return for monthly lease payments. The typical process of a financing lease using the sale-and-leaseback method includes the following components:

- (1) Prospective car buyers submit lease applications to us, and we process these applications by utilizing our credit assessment system.
- (2) After we approve a lease application, the car buyer enters into a lease agreement with us, and we are identified as the lessor. The car buyer is required to make the down payment to the dealer. We fund the remainder of the purchase price to the dealer. The car is then delivered to the car buyer, who temporarily obtains title to the car.
- (3) The car buyer is contractually required to transfer the title to us. In order to simplify the transaction process, we do not require the car buyer to register the transfer with the government authorities.
- (4) In addition, we require the car buyer to pledge the car as collateral for the car buyer's payment obligations under the lease.
- (5) The car buyer is required to designate a bank account for repayments and authorize automatic lease payments from such account. The payments are made in monthly installments. We have the right to recover the collateral in the event of default.
- (6) Upon the expiration of the lease term, we transfer the title back to the car buyer, and our security interest in the collateral is also released.

Credit Assessment Model

Credit assessment forms the foundation of our risk management efforts. We take a prudent approach to credit assessment, relying on our credit assessment model and have our credit assessment team conduct a manual evaluation when necessary. We continuously refine our credit assessment model, and we aim to maintain low overdue ratios for the financing transactions facilitated through our platform. M3+ overdue ratio for all financing transactions which we facilitated and remained outstanding was 0.40% and 0.42% as of December 31, 2019 and 2020, respectively.

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Our credit assessment model builds on machine learning algorithms, including logistic regression and gradient boost decision tree, and is continuously optimized using transaction data we have gained over time. The model analyzes a large amount of multi-dimensional applicant information, including credit data, personal data and behavioral data. The applicant is required to provide certain information as part of the credit application, such as his or her residential address, education level and marital status. The applicant also submits copies of his or her PRC identity card and driver's license. In addition, we obtain applicants' consent for collecting information from third-party sources. Information from these sources offers us valuable insights into an applicant's credit history, including the number of recent delinquencies as well as the number of recent credit applications. For more details on technologies utilized in credit assessment, see "—Our Technology System."

With our credit assessment model, we automatically approved approximately 40.9% of applications, and we automatically rejected approximately 4.3% of applications in 2020. Our credit assessment team, which was comprised of more than 40 experienced reviewers as of December 31, 2020, manually evaluates the rest of the applications. Leveraging their industry experience and insights into borrower behavior, our credit assessment team provides the second line of defense against credit and fraud risk. The additional factors considered in the manual review process include, among others, (i) whether the purchase price for a car is reasonable in light of the prospective car buyer's background, (ii) the prospective car buyer's ability to repay and (iii) whether the information provided by the prospective car buyer is consistent with the information collected from third-party sources. Our credit assessment team then makes an assessment based on these additional factors. Without compromise to our risk management, we plan to enhance the level of automation in the credit assessment process, which would enable us to both deliver superior user experience and scale up our business more rapidly.

For financing transactions funded by financial institutions, we conduct credit assessment to assist financial institutions in making ultimate credit decisions. We refer qualified credit applications to such financial institutions, which perform independent credit assessment.

Financing Terms

Financing transactions we facilitate are structured as either loans or financing leases. Both types of arrangements require car buyers to provide down payments, pledge cars as collateral and make repayments in installments. The terms of the financing transactions are stated in the agreements the car buyers sign with third-party financial institutions or Shanghai Chejia:

- *Down payments.* A car buyer is typically required to provide a down payment to the relevant dealer based on a percentage of the purchase price of the car. This percentage varies among different funding arrangements and typically ranged from 20% to 30% of the purchase price in 2018, 2019 and 2020.

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- *Principal.* The principal represents the purchase price of the car net of the down payment, which typically ranged from RMB43,400 to RMB75,053 in 2018, RMB49,800 to RMB90,090 in 2019, and RMB54,296 (US\$8,321) to RMB102,798 (US\$15,754) in 2020.
- *Interest rate.* Annual interest on most of the financing transactions facilitated in 2018 ranged from 10.88% to 11.99%. Annual interest on most of the financing transactions facilitated in 2019 ranged from 8.98% to 11.99%. Annual interest on most of the financing transactions facilitated in 2020 ranged from 8.71% to 9.99%. Besides interest, financial institutions do not charge car buyers additional fees.
- *Installments.* Each car buyer may repay in monthly installments over a period ranging from one to five years. The combined total represents the principal and interest charged to the car buyer. The car buyer is required to designate a bank account for repayments and authorize automatic payments from this account.
- *Prepayment.* Each car buyer who wishes to pay off the outstanding principal before maturity is charged a prepayment fee. The fee is based on a percentage of the outstanding principal amount at the time of prepayment.
- *Late payment penalty fee.* A penalty fee for late payment is laid out in the agreement and imposed based on the outstanding principal amount and number of days that a payment is overdue.

In the event of delinquency, the financing terms are not allowed to be restructured.

Delinquent Asset Management

Our delinquent asset management process, which consists of six distinct stages, is designed to recover value in a cost-effective way.

- (1) *Automated reminders.* During the first five days after a delinquency occurs, we send automated text messages and make automated phone calls as reminders.
- (2) *Live phone calls.* If the delinquency continues for more than five days, members of our delinquent asset management team make phone calls to urge the borrower to make the overdue payments, understand the reasons for the delinquency and inform the borrower of the legal consequences of the delinquency.
- (3) *In-person visits.* If the delinquency continues for more than 15 days, we may conduct in-person visits when we determine such measures are warranted. Around 50 members of our delinquent asset management team are responsible for this task. We view the visits as opportunities to collect repayments as well as to investigate the status of the collateral.
- (4) *Recovery.* If a car buyer is unable make repayments, we may negotiate with the car buyer and settle the outstanding amount by recovering the car collateral. For the financing transactions funded by financial institutions, we obtain their authorizations before recovering the car collateral.

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- (5) *Disposal.* After a car is recovered, we store it in a warehouse to prevent its value from further deteriorating. To cover our nationwide operations, we leased 16 warehouses across China as of December 31, 2020, 15 of which were tended to by our own employees. We conduct on-site visits to ensure these warehouses are suitable for automotive storage and are properly guarded to prevent theft.
- (6) *Legal actions.* If we are unable to recover collateral from a delinquent borrower, we may commence a lawsuit against the borrower. We have access to a nationwide network of external counsel who can represent us on such lawsuits at a reasonable cost. We view the court judgment as another way to motivate the car buyer to make repayments as well as affirmations of creditor's legal rights under the relevant credit documents.

Our Technology System

Our technology system, which supports all key operations of our platform, is designed to optimize for scalability and flexibility. The system handles the massive volume of data required to evaluate a large number of credit applications quickly and monitors repayment activities by borrowers. In the meantime, it is flexible enough to capitalize on changing user preferences, market trends and technological advances. Our technology infrastructure is based on cloud computing distributed platform, which is scalable with strong data processing power. We have collected approximately 51 terabytes of data through telematics devices as of December 31, 2020, and we typically receive over 12,000 data points every second. Built on modular architecture, our system can easily expand to enable new business functions, connect new platform participants, as well as collect information from and interact with these new participants. Supported by our technology system, we received 100% of our credit applications electronically in 2020. Such credit applications may be uploaded through our WeChat platform, our proprietary mobile applications or in-store terminals. Our technology system also allowed us to achieve high operational efficiency.

Technology is embedded into each of our business lines' operational processes, including:

- *Integration with financial institutions.* Our IT system is highly integrated with those of financial institutions with which we directly collaborate. It typically takes us two months to establish an integrated connection with a financial institution's core banking system. The system integration enables us to transmit applicant data and our credit analysis to financial institutions, as well as for financial institutions to transmit credit decisions and monthly credit repayment data to us, in each case on a real time basis. Powered by this system, it only takes less than two hours on average from submission of credit application to provision of credit decision. In some instances, credit decisions can be provided in less than half an hour. With the help of repayment data provided by financial institutions, we are also able to commence collection efforts in a timely manner.

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- *Mobile applications.* We have developed various mobile applications for our platform participants, some of which are set forth in the table below:

<u>Mobile Application</u>	<u>User Type</u>	<u>Main Functions</u>
Cango Car Loan	Car buyers	Car buyers can select cars available on our dealer network as well as submit credit applications to purchase these cars with financing leases offered by Shanghai Chejia.
Car Owner eGeneration	Car buyers	We provide information relating to insurance products and financing solutions we facilitate. We also provide customer support, traffic infraction inquiries, vehicle valuation and other services through this mobile application.
Cango Financial Services	Our sales team, dealer financial managers and sales agents	Users of the mobile application are able to receive real time updates for automotive financing solutions on our platform. They can also verify prospective car buyers' identities using facial recognition function, submit credit applications, receive credit decisions and arrange for electronic signing of financing transaction documents through this mobile application. Our in-house sales team uses the mobile application to engage new dealers and monitor existing dealers' sales efforts. We also utilize the mobile application to assign tasks to personnel involved in our sales efforts and monitor the status of our sales efforts based on 42 parameters.
Jingang—Warehousing	Warehouse staff	The mobile application allows us to effectively manage warehouse staff. We send notices before delivering recovered cars to the warehouses. The warehouse staff provide us with confirmations when they receive the cars. We also notify the warehouse staff when we need to deliver the cars to the relevant purchasers or car buyers.
Cango GPS	Our delinquent asset management team	Users of the mobile application are able to locate the collateral to facilitate the delinquent asset management process.

- *Credit assessment and data security.* Our credit assessment model is based on various algorithms such as the gradient boosting decision tree and processes a large amount of data we collect from car buyers, both directly from their applications and indirectly from third-party sources with their consent. Our credit decision engine was customized by our own research and development team based on our car buyer base. We are in the process of developing a control platform to monitor credit risk on a real-time basis. To prevent identity theft, we utilize facial recognition technology, through which we compare an applicant's image in real time with the photo stored at the National Citizen Identity Information Center of the Ministry of Public Security. We store our data and transmit it to financial institutions in an encrypted form. We have also created controls to limit employee access to such information and monitor access.
- *Dealer SaaS Solutions.* In May 2018, we launched dealer SaaS solutions as a comprehensive tool kit to address dealers' pain points. Our SaaS solutions allow dealers to conveniently (i) source cars from our platform, (ii) manage inventory on their enterprise resource planning systems and (iii) engage potential car buyers through embedded mini-programs on the WeChat social network platform.

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- **Telematics.** Certain cars purchased through our platform come with a telematics device. Our technology system is integrated with these telematics devices, which enable us to not only locate the collaterals but also collect a massive volume of car location data. We believe this data enable us to enhance our services offered and empower us to explore new business opportunities, such as offering usage-based insurance. We have collected approximately 51 terabytes of data through telematics devices as of December 31, 2020, and we typically receive over 12,000 data points every second.

Additionally, we have focused on developing infrastructure technologies in three major areas to support the overall business functions, including cloud computing, distributed architecture and big data analysis.

Cloud computing: Our technology system is deployed and our data is maintained through a customized cloud computing system. We have established a hyper-converged infrastructure that is supported by 160 high-performance physical servers and 550 high-performance virtual servers as of December 31, 2020. We utilize the hyper-converged infrastructure for all service interfaces and core applications in our technology system. Cloud computing enables us to maintain flexibility in allocating our IT resources with improved manageability and lower labor cost. Thus, we can more rapidly adjust resources to meet the significant growth of our business.

Distributed architecture: We establish micro-service interfaces using a distributed architecture, which is supported by virtualization technology. Our distributed architecture enables us to expand our technology system rapidly and achieve high concurrence capabilities. As of December 31, 2020, we had over 48,000 data points per second parallel processing capability. Built with flexibility to connect with both internal and external systems, our micro-service interfaces allow us to effectively integrate our IT system with those of financial institutions. We plan to gradually apply distributed architecture to our entire technology system in order to support the development of new services and business relationships.

Big data analytics: We collect a massive volume of data from car buyers through the credit application process as well as telematics devices. We also collect data from third party sources with car buyers' consents. As of December 31, 2020, we had a database over 25 terabytes of automotive financing application data covering 2,463,646 applicants with at least 200 variables for each of them. We continuously enhance our level of automation through big data analysis and machine learning. Leveraging our massive database, we aim to expand the application of big data analysis in the key aspects of our operations, such as sales, credit assessment and delinquent asset management, while staying within the scope of car buyers' consents.

Our research and development department comprised 144 employees as of December 31, 2020, including core team members with extensive experience with leading Internet and technology companies in China. These specialists focus on different areas including mobile application development, IT product development, new business incubation and others.

Competition

The automotive transaction industry in China is large yet competitive. We compete against automotive transaction platforms that connect various players across the automotive transaction value chain in automotive and automotive-related transaction facilitation. Within automotive financing as a subset of this, we compete against players such as Yixin Group. We may also in the future face competition from new entrants that will increase the level of competition. We anticipate that more established companies, including technology companies that possess large, existing user bases, substantial financial resources, sophisticated technological capabilities and established distribution channels may also enter the market in the future. As a leading automotive transaction service platform in China, we believe that our self-reinforcing platform, end-to-end service model, large and powerful dealer network and visionary and experienced management team make our platform more attractive and efficient to each type of participants we collaborate with, providing us with a competitive advantage over existing and potential competitors.

Intellectual Property

We regard our trademarks, domain names, 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. We have registered seven trademarks in the PRC, including “CANGO Management 灿谷管理”. We are the registered holder of 29 domain names in the PRC, including cangoonline.com and autohomefinance.com. We have 30 registered software copyrights relating to our mobile applications.

Seasonality

We experience seasonality in our business, reflecting car buyers’ purchase patterns. A greater number of cars tend to be purchased in the second half of each year, in part due to the introduction of new models from automotive manufacturers. This increase in car sales generates greater demand for our services. On the other hand, the Chinese New Year holiday contributes to lower activity levels in the first quarter of each year. As a result, we typically record higher revenues during the second half of each year compared to the first half.

Insurance

We provide social insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We also purchased additional commercial health insurance to increase insurance coverage of our employees. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China.

Regulation

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us.

Regulation Related to Financing Lease

The Administrative Measures of Supervision on Financing Lease Enterprises, or the Administrative Measures, was formulated by the MOFCOM and became effective on October 1, 2013. According to the Administrative Measures, the MOFCOM and the provincial-level commerce authorities are in charge of the supervision and administration of financing lease enterprises. A financing lease company shall report, according to the requirements of the MOFCOM, the relevant data in a timely and truthful manner through the National Financing Lease Company Management Information System. Specifically, a financing lease enterprise shall, submit, within 15 business days after the end of each quarter, the statistics on and summary of its operation in the preceding quarter, and statistics on and summary of its operations in the preceding year as well as its financial and accounting report (including appended notes thereto) audited by an auditing firm for the preceding year prior to April 30 of each year. In the event of a change of name, a relocation to another region, an increase or decrease of registered capital, a change of organizational form, an adjustment of ownership structure or other changes, a financing lease company shall report to the competent provincial-level commerce authority in advance. A foreign-invested financing lease company that undergoes such changes shall go through approval and other procedures according to the relevant provisions. A financing lease company shall, within five business days after registering such changes, log into the National Financing Lease Company Management Information System to modify the above information.

Financing lease enterprises should use real entities, which have clear ownership and capable of generating revenue, as lessor to carry out the financing lease business. Financing lease enterprises shall not engage in deposits, loans, entrusted loans or other financial services or inter-bank borrowing unless permission has been granted from the relevant departments. Financing lease enterprises must not carry out illegal fund-raising activities under the name of a financing lease company. According to the Administrative Measures, financing lease enterprises shall strengthen their internal risk controls, and establish effective systems for classifying at risk assets, and adopt a credit appraisal system for the lessee, a post recovery and disposal system and a risk alert mechanism. A financing lease company shall also establish an affiliated transaction management system, and exclude persons related to the affiliated transactions from the voting or decision-making process for affiliated transactions where the lessee is an affiliate. In the event of any purchase of equipment from an affiliated production company, the settlement price for such equipment shall not be lower than the price offered by such company to any third party of such equipment or equipment of the same batch.

The Administrative Measures also contain regulatory provisions specifically focusing on sale-leaseback transactions. The subject matter of a sale-leaseback transaction shall be properties that possess economic functions and produce continuous economic benefits. A financing lease company shall not accept any property to which a lessee has no title, or on which any mortgage has been created, or which has been sealed up or seized by any judicial organ, or whose ownership has any other defects as the subject matter of a sale-leaseback transaction. A financing lease company shall give adequate consideration to and objectively evaluate assets leased back, set purchasing prices for subject matter thereof with reference to reasonable pricing basis in compliance with accounting principles, and shall not purchase any subject matter at a price in excess of the value thereof.

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Pursuant to the Circular of the General Office of the Ministry of Commerce on Strengthening and Improving the Approval and Administration over Foreign-invested Financing Lease Companies promulgated on July 11, 2013, or the Circular, foreign-invested financing lease companies that failed to conduct substantive financing lease business operations in the previous fiscal year or failed to pass the annual inspection and had violations of laws and regulations, shall be ordered by the local authority to make rectifications and report the information on such rectification to the MOFCOM. Foreign-invested financing lease companies shall not engage in deposits, loans, entrusted loans or inter-bank borrowing and equity investment unless permission has been granted from relevant departments. The Circular specifies that foreign-invested financing lease companies are not allowed to provide direct or indirect financing to local governmental financing companies which undertake public welfare project in any form in order to prevent fiscal and financial risks.

The Guiding Opinions on Accelerating the Development of Financing Lease Industry, or the Guiding Opinion, was promulgated by the General Office of the State Council of the PRC on August 31, 2015; the Guiding Opinion's main task is to accelerate the development of the financing lease industry in four aspects: system and mechanism reform, development in major fields, innovative development and industry supervision. According to the Guiding Opinion, there is no minimum registered capital requirement for subsidiaries of a financing lease company, a financing lease company is allowed to engage in a side business which is related to its main business, and private capital and independent third-party service providers are encouraged to incorporate financing lease companies.

In April 2018, the MOFCOM transferred the duties to make rules on the operation and supervision of financing lease companies to the CBIRC.

In May 2020, the CBIRC promulgated the Interim Measures for the Supervision and Administration of Financial Leasing Companies, or the New Administrative Measures, which aim to strengthen the regulation of financing lease companies. The New Administrative Measures clarify and enumerate the scopes of the financing lease business activities, the leased properties and the activities prohibited to be conducted by the financing lease companies, and set forth the regulatory indexes applicable to financing lease companies including, among others, (i) the assets for financial leasing and other lease arrangements accounting for not less than 60% of the total assets of a financial leasing company; (ii) the risk assets of a financing lease company not exceeding eight times of its total net assets, and the term "risk assets" of a financing lease company refers to its total assets, net of cash, bank deposits, Chinese treasury bonds; (iii) the fixed-income securities investment business carried out by a financial leasing company not exceeding 20% of its net assets. The New Administrative Measures also provide that a financial leasing company established before the implementation of these measures including us shall meet the relevant requirements within the transition period prescribed by the relevant provincial financial regulatory authority, which in principle will not exceed three years, subject to extension by the provincial financial regulatory authorities. In addition, the New Administrative Measures require provincial governments to formulate local implementing rules in accordance with the measures, make appropriate adjustments to the regulatory standards according to the local conditions, and report the same to the CBIRC for record-filing.

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The PRC Civil Code promulgated by the National People's Congress effective from January 1, 2021 regulates the civil contractual relationship among natural persons, legal persons and other organizations. Chapter 15 of the PRC Civil Code sets forth related rules about financing lease contracts including that financing lease contracts shall be in written form and normally include terms such as the name, quantity, specifications, technical performance and inspection method of the leased property, the lease term, the composition, payment term, payment method and currency of the rent and the ownership of the leased property upon expiration of the lease. The PRC Civil Code further provides that the lessor and the lessee may agree on the ownership of the leased property upon expiry of the lease term. If the ownership of the leased property is not or is not clearly agreed between the parties, and is still cannot be determined pursuant to the PRC Civil Code, the leased property shall be owned by the lessor.

Shanghai Chejia, our proprietary financing lease subsidiary, utilizing our own capital to fund financing leases to car buyers, has obtained the approval to operate financing lease business as issued by the MOFCOM.

Regulation Related to Intermediation

An intermediation contract under the PRC Civil Code is a contract whereby an intermediary presents to its client an opportunity for entering into a contract or provides the client with other intermediary services in connection with the conclusion of a contract, and the client pays the intermediary service fees. Our business practice of connecting financial institutions with individual car buyers may constitute an intermediary service, and our service agreements with financial institutions may be deemed as intermediation contracts. Pursuant to the PRC Civil Code, an intermediary must provide true information relating to the proposed contract. If an intermediary conceals any material fact intentionally or provides false information in connection with the conclusion of the proposed contract, which results in harm to the client's interests, the intermediary may not claim for service fees and is liable for the damages caused.

Regulation Related to Internet Information Security and Privacy Protection

PRC government authorities have enacted laws and regulations with respect to Internet information security and protection of personal information from any abuse or unauthorized disclosure. Internet information in China is regulated and restricted from a national security standpoint. The Standing Committee of the National People's Congress, or the SCNPC, China's national legislative body, enacted the Decisions on Maintaining Internet Security in December 2000, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit use of the Internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

Pursuant to the Decision on Strengthening the Protection of Online Information issued by the SCNPC in December 2012, 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. Any entity collecting personal information must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying any such information, or selling or providing such information to other parties, and is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. Any violation of these laws and regulations may subject the entity collecting personal information to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

Pursuant to the Notice of the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security on Legally Punishing Criminal Activities Infringing upon the Personal Information of Citizens, issued in 2013, and the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens, which was issued on May 8, 2017 and took effect on June 1, 2017, the following activities may constitute the crime of infringing upon a citizen's personal information: (i) providing a citizen's personal information to specified persons or releasing a citizen's personal information online or through other methods in violation of relevant national provisions; (ii) providing legitimately collected information relating to a citizen to others without such citizen's consent (unless the information is processed, not traceable to a specific person and not recoverable); (iii) collecting a citizen's personal information in violation of applicable rules and regulations when performing a duty or providing services; or (iv) collecting a citizen's personal information by purchasing, accepting or exchanging such information in violation of applicable rules and regulations. In addition, according to the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of the Law in Handling Criminal Cases Involving Crimes of Illegally Using the Information Network or Providing Aid for Criminal Activities regarding Information Network issued on October 21, 2019 and taking effect on November 1, 2019, a violator refusing to perform the obligation of safety management for the information network, causing the disclosure of user information, and falling under one of the following circumstances shall be deemed "causing serious consequences" as prescribed under the PRC Criminal Law: (i) causing the disclosure of not less than 500 pieces of location information, communication content, credit information, and property information; (ii) causing the disclosure of not less than 5,000 pieces of accommodation information, communication records, health and physiological information, transaction information and other user information that may affect personal or property safety; (iii) causing the disclosure of not less than 50,000 pieces of user information other than the information set forth in items (i) and (ii); (iv) causing the disclosure of user information which quantity does not meet the standards set forth in items (i), (ii) and (iii), but meets the relevant quantity standards after conversion at the corresponding proportion in aggregate; (v) causing deaths, serious injuries, mental disorders or kidnapping of others, or other serious consequences; (vi) causing material economic losses; (vii) seriously disturbing the social order; or (viii) causing other serious consequences.

Pursuant to the Ninth Amendment to the Criminal Law issued by the SCNPC in August 2015, which became effective in November 2015, any person or entity that fails to fulfill the obligations related to Internet information security administration as required by applicable laws and refuses to rectify upon orders is subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtain any personal information is subject to criminal penalty in severe situation.

On November 28, 2019, the Secretary Bureau of the Cyberspace Administration of China, the General Office of the MIIT, the General Office of the Ministry of Public Security and the General Office of the SAMR jointly issued the Notice on the Measures for Determining the Illegal Collection and Use of Personal Information through Mobile Applications, which aims to provide reference for supervision and administration departments and provide guidance for mobile applications operators' self-examination and self-correction and social supervision by netizens, and further elaborates the forms of behavior constituting illegal collection and use of the personal information through mobile applications including: (i) failing to publish the rules on the collection and use of personal information; (ii) failing to explicitly explain the purposes, methods and scope of the collection and use of personal information; (iii) collecting and using personal information without the users' consent; (iv) collecting personal information unrelated to the services it provides and beyond the necessary principle; (v) providing personal information to others without the users' consent; (vi) failing to provide the function of deleting or correcting the personal information according to the laws or failing to publish information such as ways of filing complaints and reports.

Regulation Related to VATS License

Among all of the applicable laws and regulations, the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, promulgated by the PRC State Council in September 25, 2000 and amended on July 29, 2014 and February 6, 2016 respectively, is the primary governing law, and sets out the general framework for the provision of telecommunications services by domestic PRC companies. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations distinguish "basic telecommunications services" from "value-added telecommunications services", or "VATS". VATS are defined as telecommunications and information services provided through public networks, and are further divided into Class I VATS and Class II VATS. The Telecom Catalogue was issued as an attachment to the Telecom Regulations to categorize telecommunications services as either basic or value-added. The Telecom Catalogue was most recently updated in June 2019, categorizing online data and transaction processing, information services, among others, as Class II VATS.

The Administrative Measures on Telecommunications Business Operating Licenses, promulgated by the MIIT in 2009 and most recently amended in July 2017, which set forth more specific provisions regarding the types of licenses required to operate VATS, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Under these regulations, a commercial operator of VATS must first obtain a VATS License, from the MIIT or its provincial level counterparts, otherwise such operator might be subject to sanctions including corrective orders and warnings from the competent administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites may be ordered to close.

Regulation Related to Foreign Investment

Foreign Investment Law

On March 15, 2019, the National People's Congress approved the Foreign Investment Law, and on December 26, 2019, the State Council promulgated the Implementing Rules to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules both took effect on January 1, 2020 and replaced three major previous laws on foreign investments in China, namely, the Sino-foreign Equity Joint Venture Law, the Sino-foreign Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their respective implementing rules. Pursuant to the Foreign Investment Law, "foreign investments" refer to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The Implementing Rules introduce a see-through principle and further provide that foreign-invested enterprises that invest in the PRC shall also be governed by the Foreign Investment Law and the Implementing Rules.

The Foreign Investment Law and the Implementing Rules provide that a system of pre-entry national treatment and negative list shall be applied for the administration of foreign investment, where "pre-entry national treatment" means that the treatment given to foreign investors and their investments at market entry stage is no less favorable than that given to domestic investors and their investments, and "negative list" means the special administrative measures for foreign investment's entry to specific fields or industries, which will be proposed by the competent investment department of the State Council in conjunction with the competent commerce department of the State Council and other relevant departments, and be reported to the State Council for promulgation, or be promulgated by the competent investment department or competent commerce department of the State Council after being reported to the State Council for approval. Foreign investments beyond the negative list will be granted national treatment. Foreign investors shall not invest in the prohibited fields as specified in the negative list, and foreign investors who invest in the restricted fields shall comply with the special requirements on the shareholding, senior management personnel, etc. In the meantime, relevant competent government departments will formulate a catalogue of industries for which foreign investments are encouraged according to the needs for national economic and social development, to list the specific industries, fields and regions in which foreign investors are encouraged and guided to invest. The current industry entry clearance requirements governing investment activities in the PRC by foreign investors are set out in two categories, namely the Special Entry Management Measures (Negative List) for the Access of Foreign Investment (2020 version), or the 2020 Negative List, as promulgated by the National Development and Reform Commission and the MOFCOM on June 23, 2020 and taking effect on July 23, 2020, and the Encouraged Industry Catalogue for Foreign Investment (2020 version) as promulgated by the National Development and Reform Commission and the MOFCOM on December 27, 2020 and taking effect on January 27, 2021. Industries not listed in these two catalogues are generally deemed "permitted" for foreign investment unless specifically restricted by other PRC laws.

According to the Implementing Rules, the registration of foreign-invested enterprises shall be handled by the SAMR or its authorized local counterparts. Where a foreign investor invests in an industry or field subject to licensing in accordance with laws, the relevant competent government department responsible for granting such license shall review the license application of the foreign investor in accordance with the same conditions and procedures applicable to PRC domestic investors unless it is stipulated otherwise by the laws and administrative regulations, and the competent government department shall not impose discriminatory requirements on the foreign investor in terms of licensing conditions, application materials, reviewing steps and deadlines, etc.

Pursuant to the Foreign Investment Law and the Implementing Rules, and the Information Reporting Measures for Foreign Investment jointly promulgated by the MOFCOM and the SAMR, which took effect on January 1, 2020, a foreign investment information reporting system shall be established and foreign investors or foreign-invested enterprises shall report investment information to competent commerce departments of the government through the enterprise registration system and the enterprise credit information publicity system, and the administration for market regulation shall forward the above investment information to the competent commerce departments in a timely manner.

Foreign Investment Restriction on VATS

According to the 2020 Negative List and other related laws and regulations, industries such as VATS (other than the services of electronic commerce, multiparty conferencing within the PRC, information storage and forwarding, and call center) are generally restricted to foreign investment with very limited exceptions in certain pilot demonstration zones.

According to the Administrative Regulations on Foreign-Invested Telecommunications Enterprises issued by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016 respectively, foreign-invested value-added telecommunications enterprises must be in the form of a Sino-foreign equity joint venture. The regulations restrict the ultimate capital contribution percentage held by foreign investor(s) in a foreign-invested value-added telecommunications enterprise to 50% or less and require the primary foreign investor in a foreign invested value-added telecommunications enterprise to have a good track record and operational experience in the VATS industry.

In July 2006, the predecessor of the MIIT, issued the Circular of the Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Business, or the MIIT Circular, according to which, a foreign investor in the telecommunications service industry of China must establish a foreign invested enterprise and apply for a telecommunications businesses operation license. The MIIT Circular further requires that: (i) PRC domestic telecommunications business enterprises must not, through any form, lease, transfer or sell a telecommunications businesses operation license to a foreign investor, or provide resources, offices and working places, facilities or other assistance to support the illegal telecommunications services operations of a foreign investor; (ii) value-added telecommunications enterprises or their shareholders must directly own the domain names and trademarks used by such enterprises in their daily operations; (iii) each value-added telecommunications enterprise must have the necessary facilities for its approved business operations and maintain such facilities in the regions covered by its license; and (iv) all VATS providers are required to maintain network and Internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with the requirements in the MIIT Circular and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holder, including revoking its license for value-added telecommunications business, or the VATS License.

In light of the above restrictions and requirements, we plan to conduct the value-added telecommunications businesses through our consolidated VIE in the future.

Regulation Related to Financing Guarantee Companies

The State Council promulgated the Regulations on the Administration of Financing Guarantee Companies on August 2, 2017, and on April 2, 2018, the CBIRC, together with several other governmental authorities, jointly adopted four supporting rules of the Administration of Financing Guarantee Companies: (i) the Administrative Measures for the Financing Guarantee Business Permit, (ii) Measures for Measuring the Outstanding Amount of Financing Guarantee Liabilities, (iii) Administrative Measures for the Asset Percentages of Financing Guarantee Companies and (iv) Guidelines on Business Cooperation between Banking Financial Institutions and Financing Guarantee Companies, or the Four Supporting Measures of the Financing Guarantee Rules. In addition, the CBIRC, together with several other governmental authorities, jointly issued the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies on October 9, 2019.

According to the above rules on financing guarantee companies, or the Financing Guarantee Rules, “financing guarantee” refers to the activities in which guarantors provide guarantee to the guaranteed parties as to loans, bonds or other types of debt financing, including, among other things, the activities whereby a guarantor provides guarantee for loans, online lending, financial leasing, commercial factoring, bill acceptance, letters of credit or other forms of debt financing. “Financing guarantees companies” refer to companies legally established and operating financing guarantee business. According to such rules, the establishment of financing guarantee companies shall be subject to the approval by the competent government authority, and unless otherwise stipulated, no entity may operate financing guarantee business without such approval. If any entity violates these regulations and operates financing guarantee business without approval, the entity may be subject to penalties including ban or suspension of business, fines of RMB500,000 to RMB1,000,000, confiscation of illegal gains if any, and if the violation constitutes a criminal offense, criminal liability shall be imposed in accordance with the law.

As required by the Financing Guarantee Rules, a financing guarantee company shall measure its outstanding guarantee liabilities according to the risk weights stipulated by the government authorities, and the outstanding guarantee liabilities of a financing guarantee company shall not exceed ten times of its net assets, such limitation may be raised to fifteen times for financing guarantee companies which mainly serves small and micro-sized enterprises as well as the agricultural industry, rural areas and farmers. The outstanding guarantee liabilities of a financing guarantee company vis-à-vis the same guaranteed party shall not exceed 10% of the net assets of the financing guarantee company, while the outstanding guarantee liabilities of a financing guarantee company vis-à-vis the same guaranteed party and its affiliated parties shall not exceed 15% of its net assets.

Furthermore, a financing guarantee company shall not provide financing guarantee for its controlling shareholder and actual controller. When a financing guarantee company provides financing guarantee for other affiliated parties, the conditions shall not be more favorable than those for providing similar guarantee for non-affiliated parties. In addition, a financing guarantee company shall not engage in any of the following activities: (i) taking deposits directly or in any disguised form; (ii) being engaged in proprietary lending or entrusted lending business; or (ii) making investment upon entrustment. If the competent governing authority finds that the business activities of a financing guarantee company may cause material risks, the government authority may take any of the following measures depending on actual circumstances: (i) ordering the financing guarantee company to suspend certain business; (ii) restricting the size and manner of use of proprietary funds by the financing guarantee company; or (iii) ordering the financing guarantee company to stop setting up any additional branch. A financing guarantee company that falls under any of the following circumstances shall be ordered by the competent government authority to make correction within the prescribed time limit; and, where it fails to correct by the prescribed deadline, the financing guarantee company may be subject to penalties including, fines of RMB100,000 to RMB500,000, confiscation of illegal gains if any, being ordered to suspend business for rectification, or being revoked of its permit for financing guarantee business under grave circumstances: (i) where the ratio of the outstanding guarantee liabilities of the financing guarantee company to its net assets is not in compliance with relevant requirements; (ii) where the financing guarantee company provides financing guarantee for its controlling shareholder or actual controller, or where the conditions by which the financing guarantee company provides financing guarantee for other affiliated parties are more favorable than those for providing similar guarantee for non-affiliated parties; (iii) where the financing guarantee company fails to accrue corresponding reserves in accordance with relevant provisions; or (iv) where the financing guarantee company fails to use its proprietary funds pursuant to the applicable governmental provisions on the safety and liquidity of the assets of financing guarantee companies.

With respect to the cooperation on guarantee business between financing guarantee companies and banking financial institutions, as required by the Financing Guarantee Rules, the two parties of such cooperation shall follow the principles of free will, equality, fairness and honesty, being compliant with laws, and prudent operation. Financing guarantee companies and banking financial institutions shall enter into cooperation agreements in writing to specify the rights and obligations of both parties, which shall include the scope of business cooperation, duration of cooperation, credit line, risk sharing, grace period for compensation, and information disclosure, among others. Furthermore, banking financial institutions shall not carry out cooperation on guarantee business with any company that does not hold the approval or license to operate financing guarantee business.

In connection with our automotive financing facilitation business, we provide credit assessment service to financial institutions to assist them in making ultimate credit decisions. Under our arrangements with certain financial institutions, we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. It is uncertain whether such practices of us would be deemed to operate financing guarantee business because of our current arrangements with certain financial institutions, which has caused certain risks to our business, financial condition, results of operations and prospects. See “—Risks Relating to Our Industry and Business—The laws and regulations governing the automotive and mobility industries or other industries related to our business in the PRC are subject to further changes and interpretation. If our business practices or the business practices of third parties that we collaborate with are deemed to violate any PRC laws or regulations, our business, financial condition, results of operations and prospects would be materially and adversely affected.” and “—Risks Relating to Our Industry and Business—Shanghai Cango may be deemed to operate financing guarantee business by the PRC regulatory authorities”.

Regulation Related to Insurance Brokerage Business

According to the Administrative Measures for Insurance Licenses promulgated by China Insurance Regulatory Commission, currently known as the CBIRC, in June 2007 and the PRC Insurance Law promulgated by the SCNPC in June 1995 and most recently amended in April 2015, an insurance brokerage company is an entity that, in the interest of the applicant, provides intermediary services between the applicant and the insurer for the conclusion of an insurance contract and receives a commission in accordance with relevant laws. An insurance brokerage company shall obtain a license of insurance brokerage business operation before it engages in insurance brokerage business.

In accordance with the Regulatory Provisions on Insurance Brokerages, which was promulgated by the CBIRC on February 1, 2018 and took effect on May 1, 2018, or the Insurance Brokerages Provisions, an insurance brokerage company, in order to operate the insurance brokerage business, shall satisfy the relevant statutory requirements with respect to its shareholders, registered capital, business scope, articles of associations, company name, senior management personnel, governance structure, internal control system, feasible business mode, business premise, etc. If the insurance brokerage practitioners of an insurance brokerage company intend to practice the insurance brokerage business, such insurance brokerage company shall complete the practicing registration for those practitioners in the regulatory information system of the CBIRC for insurance intermediaries including the insurance brokerage companies. The practicing registration for each insurance brokerage practitioner shall only be conducted through one insurance brokerage company. Violations of the Insurance Brokerages Provisions by the insurance brokerage companies may subject them to penalties including without limitation warning, fines, confiscation of illegal gains, rectification, revocation of licenses, and the insurance brokerage companies may be prevented from applying for administrative approval again within a specified time.

On April 2, 2019, the CBIRC promulgated the Circular on Issuing the 2019 Plan for the Rectification of Chaos in the Insurance Intermediary Market, or the Rectification Plan, aiming to further curb the chaos of violations of laws and regulations in the insurance intermediary market. The Rectification Plan mainly provides three key targets: (i) to ascertain insurance companies' responsibility for management and control of various intermediary channels; (ii) to carefully investigate business compliance of insurance intermediaries; and (iii) to strengthen the rectification of insurance business of the third-party online platforms in cooperation with insurance institutions. Insurance intermediaries, like the insurance brokerage companies, shall strengthen the internal control management, prevent business risks, and focus on the rectification based on the following factors: (i) whether the professional insurance intermediary assists an insurance company in maliciously obtaining insurance proceeds by fabricating agency business, etc.; (ii) whether the professional insurance intermediary sells unapproved non-insurance financial products; (iii) whether the professional insurance intermediary grants benefits other than those stipulated in relevant insurance contracts to policyholders, the issued and beneficiaries; and (iv) whether the professional insurance intermediary has filed registration for sales personnel for practice in accordance with relevant regulations, etc.

On December 17, 2020, the CBIRC promulgated the Regulatory Measures for Online Insurance Business, or the Online Insurance Measures, which took effect on February 1, 2021. The Online Insurance Measures set forth the fundamental business rules applicable to the business operation of all insurance institutions (including insurance companies and insurance intermediaries) and their self-operated online platforms, as well as the specific business rules applicable to various types of insurance institutions and their business operation. In particular, the Online Insurance Measures provide that insurance institutions shall sell the Internet insurance products or provide insurance brokerage and insurance adjustment services through their self-operated online platforms or the self-operated online platforms of other insurance institutions, and the insurance application page must belong to the self-operated online platforms of insurance institutions. If an insurance intermediary conducts the Internet insurance business, its insurance type shall not exceed the insurance coverage and business area of the underwriting insurance company, and its business scope shall not exceed the scope agreed upon in the cooperation or entrustment agreement. An insurance institution operating the Internet insurance business shall submit information related to its self-operated online platforms, Internet insurance products, cooperative sales channels, and related changes to the relevant information system of the relevant regulatory authority. An insurance institution shall submit a report on the operation of the Internet insurance business over the previous year to the relevant information system before April 30 each year. In addition, insurance institutions are required to conduct rectification in accordance with the Online Insurance Measures, complete the rectification of system construction, marketing, sales management, information disclosure and other issues within three months following the implementation of the Online Insurance Measures, and complete the rectification of other business operation issues within six months thereafter, and complete the network security level protection certification of the self-operated network platform within 12 months thereafter. Any insurance institutions in violation of the Online Insurance Measures may be ordered to make rectification or subject to other regulatory measures.

Anti-money Laundering Regulation

The PRC Anti-money Laundering Law, which 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, establishment of various systems for client identification, retention of clients' identification information and transactions records, and reports on large transactions and suspicious transactions. According to the PRC Anti-money Laundering Law, financial institutions subject to the PRC Anti-money Laundering Law include banks, credit unions, trust investment companies, stock brokerage companies, futures brokerage companies, insurance companies and other financial institutions as listed and published by the State Council, while the list of the non-financial institutions with anti-money laundering obligations will be published by the State Council. The PBOC and other governmental authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. However, the State Council has not promulgated the list of the non-financial institutions with anti-money laundering obligations.

The Internet Finance Guidelines jointly released by ten PRC regulatory agencies in July 2015, purport, among other things, to require Internet finance service providers to comply with certain anti-money laundering requirements, 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. In addition, the PBOC, CBIRC and CSRC jointly promulgated the Measures for the Administration of Anti-money Laundering and Countering the Terrorist Financing by Internet Finance Service Providers (for Trial Implementation) on September 29, 2018, or the Anti-money Laundering Measures for the Internet Finance Service Providers, which took effect from January 1, 2019. The Anti-money Laundering Measures for the Internet Finance Service Providers apply to the institutions established in the PRC with the approval of or upon filing with the appropriate authorities and legally engaged in Internet financial services. According to such measures, the specific work scope of combating money laundering and terrorist financing in the Internet finance industry shall be determined, adjusted and published by the PBOC in conjunction with the relevant financial regulatory authorities of the State Council in accordance with laws and regulatory policies, including but not limited to online payment, peer-to-peer lending, information intermediaries of peer-to-peer lending, equity crowdfunding, online sale of funds, online insurance, online trust, and online consumer finance. Internet finance service providers other than financial institutions and non-bank payment institutions shall file the record of their internal control system for anti-money laundering and countering the terrorist financing to the competent governmental authority. Furthermore, Internet finance service providers other than financial institutions and non-bank payment institutions shall complete the performance registration with the online monitoring platform for anti-money laundering and countering the terrorist financing of Internet finance established by the PBOC. Any Internet finance service provider in violation of such provisions will be ordered to rectify within prescribed time limit and be subject to administration penalties by the PBOC, the financial regulatory authority of the State Council and their local counterparts respectively, or even subject to criminal liabilities.

In addition, pursuant to the Notice of Strengthening Anti-money Laundering in Insurance Industry promulgated by the CBIRC on August 10, 2010 and Administrative Measures for Anti-money Laundering Agenda in Insurance Industry promulgated on September 13, 2011 by the CBIRC and became effective on October 1, 2011, the CBIRC shall organize, coordinate and direct anti-money laundering efforts in insurance industry. Pursuant to the Notice of Strengthening Anti-money Laundering in Insurance Industry, equity investments in insurance intermediaries and equity structure changes therein should be in line with relevant requirements on fund sources in anti-money laundering laws and regulations of the PRC. According to the foregoing regulations, insurance brokerage companies shall, in the light of the real-name system for policies and in accordance with the working principles that client materials are complete, transaction records are available for inspection and circumstance of funds is regulated, effectively enhance the internal control level of anti-money laundering. They shall establish an internal control system for anti-money laundering and prohibit funds of illegal source from investing into them. The senior management officers of insurance brokerage companies shall understand laws and regulations on anti-money laundering. Furthermore, they shall meet anti-money laundering criteria specified by the CBIRC, including (i) establishment of system for client identity recognition, client identity and transaction record keeping, training and education, auditing, confidentiality, internal control system and operation protocols including those facilitating monitoring and inspection and administrative investigation; (ii) dedicated anti-money laundering posts and job descriptions, manning and training for such posts; and (iii) other requirements according to regulatory provisions.

Regulation Related to Intellectual Property Rights

The SCNPC, the State Council and the National Copyright Administration, or the NCAC, have promulgated various rules and regulations relating to the protection of software in China, including without limitation the PRC Copyright Law, adopted in 1997 and last revised in November 2020 (this amendment will take effect on June 1, 2021), with its implementation rules adopted in 1991 and revised in 2013, and the Regulations for the Protection of Computer Software as promulgated on January 30, 2013. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the NCAC or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process to enjoy the better protections afforded to registered software rights.

The PRC Trademark Law, adopted in 1982 and last revised in 2019, respectively, with its implementation rules adopted in 2002 and revised in 2014, protects registered trademarks. The State Intellectual Property Office, formerly known as the Trademark Office of the State Administration for Industry and Commerce, handles trademark registrations and grants a protection term of ten years to registered trademarks.

The MIIT promulgated its Administrative Measures on Internet Domain Names in 2017. According to these measures, the MIIT is in charge of the overall administration of domain names in China. The registration of domain names in PRC is on a “first-apply-first-registration” basis. A domain name applicant will become the domain name holder upon the completion of the application procedure.

Regulation Related to Employment

On June 29, 2007, the SCNPC, adopted the Labor Contract Law, which became effective as of January 1, 2008 and was revised on December 28, 2012 and became effective on July 1, 2013. The Labor Contract Law requires employers to enter into written contracts with their employees, restricts the use of temporary workers and aims to give employees long-term job security. Pursuant to the Labor Contract Law, employment contracts lawfully concluded prior to the implementation of the Labor Contract Law and continuing as of the date of its implementation will continue to be performed. Where an employment relationship was established prior to the implementation of the Labor Contract Law but no written employment contract was concluded, a contract must be concluded within one month after the Labor Contract Law's implementation.

According to the Social Insurance Law promulgated by SCNPC, most recently amended on December 29, 2018, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, Regulation of Unemployment Insurance, the Decision of the State Council on Setting Up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns, the Interim Regulation on the Collection and Payment of Social Insurance Premiums and the Interim Provisions on Registration of Social Insurance, an employer is required to contribute the social insurance for its employees in the PRC, including the pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. Under the Regulations on the Administration of Housing Funds, promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002 and March 24, 2019 respectively, an employer is required to make contributions to a housing fund for its employees.

The use of employees of third-party labor dispatch agencies, who are known in China as "dispatched workers," is mainly regulated by the Interim Provisions on Labor Dispatching, which was promulgated by the Ministry of Human Resources and Social Security in January 2014. It provides that an employer may use dispatched workers only for temporary, auxiliary or substitute positions, and shall strictly control the number of workers under labor dispatching arrangements. The number of dispatched workers used by an employer shall not exceed 10% of the total number of its employees.

Regulation Related to Foreign Exchange

Regulation on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, most recently amended in August 2008. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions, interest payments 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. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds derived by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated another circular in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC must be conducted by way of registration and banks must process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. On February 28, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Notice 13. After SAFE Notice 13 became effective on June 1, 2015, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration.

On March 30, 2015, SAFE promulgated the Circular of SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. Circular 19 came into force and replaced both the Circular of the State Administration of Foreign Exchange on Issues Relating to the Improvement of Business Operations with Respect to the Administration of Foreign Exchange Capital Payment and Settlement of Foreign-invested Enterprises, or Circular 142 and the Circular of the State Administration of Foreign Exchange on Issues concerning the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas, or Circular 36 on June 1, 2015. Circular 19 allows all foreign-invested enterprises established in the PRC to use their foreign exchange capitals to make equity investment and removes certain other restrictions had been provided in Circular 142. However, Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope and providing entrusted loans or repaying loans between non-financial enterprises. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective in June 2016, which reiterates some of the rules set forth in Circular 19, but Compared to Circular 19, Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding RMB capital converted from foreign exchange are not restricted from extending loans to related parties or repaying the inter-company loans (including advances by third parties). However, there exist substantial uncertainties with respect to the interpretation and implementation in practice with respect to the Circular 16. Circular 19 or Circular 16 may delay or limit us from using the proceeds of offshore offerings to make additional capital contributions or loans to our PRC subsidiaries and any violations of these circulars could result in severe monetary or other penalties.

In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, or Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years' losses before remitting the profits. Moreover, pursuant to Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment, or Circular 28, which permits non-investment foreign-invested enterprises to use their capital funds to make equity investments in China, with genuine investment projects and in compliance with effective foreign investment restrictions and other applicable laws. However, as the Circular 28 was newly issued, there are still substantial uncertainties as to its interpretation and implementations in practice.

Regulation on Foreign Exchange Registration of Overseas Investment by PRC Residents

SAFE issued SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, that became effective in July 2014, replacing the Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles, or SAFE Circular 75. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular 37, a SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" refers to direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 provides that, before making contribution into an SPV, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, which took effect on June 1, 2015. This notice has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than 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.

PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to SPVs but had not obtained registration as required before the implementation of the SAFE Circular 37 must register their ownership interests or control in the SPVs with qualified banks. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

Regulation Related to Stock Incentive Plans

SAFE promulgated the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Overseas, or the Stock Option Rules in February 2012, replacing the previous rules issued by SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with 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 the participants. 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 other material changes. The PRC agent must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its 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.

Regulation Related to Dividend Distribution

The principal laws, rules and regulations governing dividends distribution by companies in the PRC are the PRC Company Law, which applies to both PRC domestic companies and foreign-invested companies, and the Foreign Investment Law and the Implementing Rules, which apply to foreign-invested companies. Under these laws, regulations and rules, both domestic companies and foreign-invested companies in the PRC are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of their reserves reaches 50% of their registered capital. PRC companies are not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Regulation Related to Taxation

Enterprise Income Tax

In March 2007, the National People's Congress enacted the Enterprise Income Tax Law, which was most recently amended in December 2018, and in December 2007, the State Council promulgated the Implementing Rules of the Enterprise Income Tax Law, which were most recently amended in April 2019. The Enterprise Income Tax Law (i) reduces the top rate of enterprise income tax from 33% to a uniform 25% rate applicable to both foreign-invested enterprises and domestic enterprises and eliminates many of the preferential tax policies afforded to foreign investors, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules and (iii) introduces new tax incentives, subject to various qualification criteria.

The Enterprise Income Tax Law also provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules of the Enterprise Income Tax Law further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the production and operations, personnel, accounts and properties of an enterprise. If an enterprise organized under the laws of jurisdiction outside China is considered a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, it would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Second, a 10% withholding tax would be imposed on dividends it pays to its non-PRC enterprise shareholders and a 10% tax would apply with respect to gains derived by its non-PRC enterprise shareholders from transfer of its shares.

According to the Enterprise Income Tax Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates, which was issued on January 29, 2008 and supplemented and revised on February 29, 2008, and the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, which became effective on December 8, 2006 and applies to income derived in any year of assessment commencing on or after April 1, 2007 in Hong Kong and in any year commencing on or after January 1, 2007 in the PRC, such withholding tax rate may be lowered to 5% if a Hong Kong enterprise is deemed the beneficial owner of any dividend paid by a PRC subsidiary by PRC tax authorities and holds at least 25% of the equity interest in that particular PRC subsidiary at all times within the 12-month period immediately before distribution of the dividends. Furthermore, the State Administration of Taxation promulgated the Public Announcement on Certain Questions in the Recognition of Beneficial Owners in Tax Treaties in 2018, which stipulates that, in determining whether a non-resident enterprise has the status of a beneficial owner, comprehensive analysis shall be conducted based on the factors listed therein and the actual circumstances of the specific case shall be taken into consideration. Non-resident enterprises that cannot provide valid supporting documents as "beneficial owners" may not be approved to enjoy tax treaty benefits. Specifically, it expressly excludes an agent or a "designated payee" from being considered as a "beneficial owner" and a "beneficial owner" analysis is required to be conducted on a case-by-case basis following the "substance-over-the-form" principle.

Value-Added Tax and Business Tax

Pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenues generated from providing such services. However, if the services provided are related to technology development and transfer, such business tax may be exempted subject to approval by the relevant tax authorities. Whereas, pursuant to the Provisional Regulations on Value-Added Tax of the PRC and its implementation regulations, unless otherwise specified by relevant laws and regulations, any entity or individual engaged in the sales of goods, provision of processing, repairs and replacement services and importation of goods into China is generally required to pay a value-added tax, or VAT, for revenues generated from sales of products, while qualified input VAT paid on taxable purchase can be offset against such output VAT.

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax. In March 2016, the Ministry of Finance and the State Administration of Taxation further promulgated the Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax, which became effective on May 1, 2016. Pursuant to the pilot plan and relevant notices, VAT is generally imposed in lieu of business tax in the modern service industries, including the VATS, on a nationwide basis. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Certain small taxpayers under PRC law are subject to reduced value-added tax at a rate of 3%. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

On April 4, 2018, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjustment of VAT Rates, which came into effect on May 1, 2018. According to the abovementioned notice, the taxable goods previously subject to VAT rates of 17% and 11% respectively become subject to lower VAT rates of 16% and 10% respectively starting from May 1, 2018. Furthermore, according to the Announcement on Relevant Policies for Deepening Value-added Tax Reform jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, which became effective on April 1, 2019, the taxable goods previously subject to VAT rates of 16% and 10% respectively become subject to lower VAT rates of 13% and 9% respectively starting from April 1, 2019.

Regulation Related to M&A and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the CSRC, and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules, among other things, require that (i) PRC entities or individuals obtain MOFCOM approval before they establish or control a SPV overseas, provided that they intend to use the SPV to acquire their equity interests in a PRC company at the consideration of newly issued share of the SPV, or Share Swap, and list their equity interests in the PRC company overseas by listing the SPV in an overseas market; (ii) the SPV obtains MOFCOM's approval before it acquires the equity interests held by the PRC entities or PRC individual in the PRC company by Share Swap; and (iii) the SPV obtains CSRC approval.

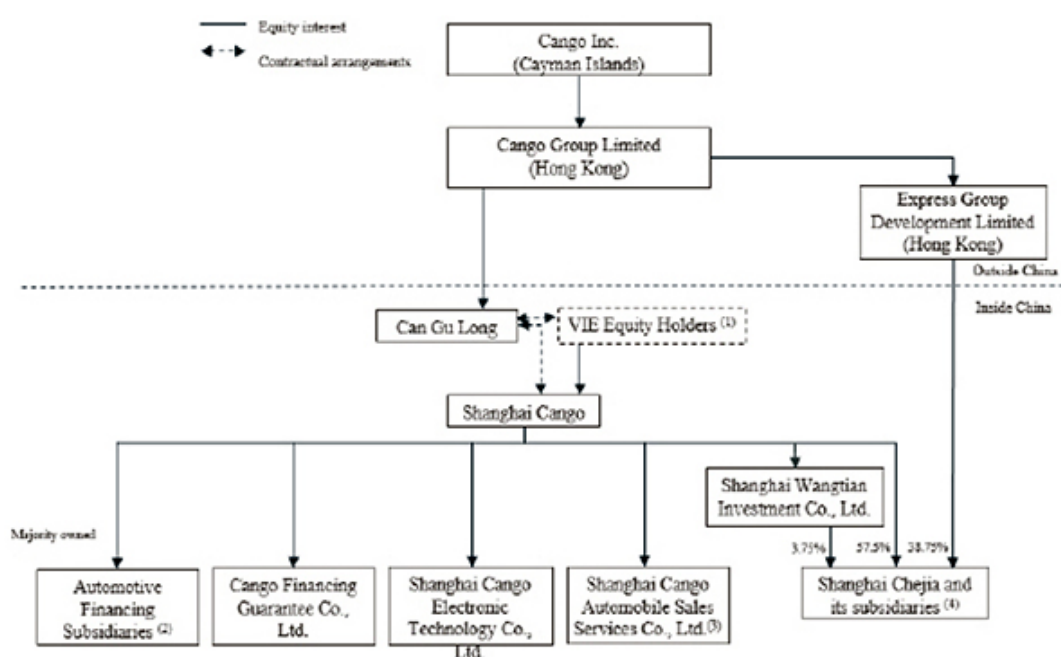
The Anti-Monopoly Law promulgated by the SCNPC on August 30, 2007 and effective on August 1, 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the anti-monopoly enforcement agency before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Lenders, or Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on August 25, 2011, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Lenders, or the MOFCOM Security Review Regulations, which became effective on September 1, 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises with "national security" concerns. Under the MOFCOM Security Review Regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the National Development and Reform Commission, or NDRC, and MOFCOM under the leadership of the State Council, to carry out the security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

C. Organizational Structure

The following diagram illustrates our corporate structure. We acquired Shanghai Chejia through a series of transactions, and the Acquisition was completed at the end of September 2018.

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The following diagram omits certain entities that are immaterial to our results of operations, business and financial condition. Except as otherwise specified, equity interests depicted in this diagram are held as to 100%. The relationships between each of Can Gu Long, Shanghai Cango and its shareholders as illustrated in this diagram are governed by contractual arrangements and do not constitute equity ownership.



- (1) Include Shanghai Wangjin Investment Management Co., Ltd. (controlled by Mr. Xiaojun Zhang), Mr. Jiayuan Lin, Warburg Pincus Financial Global Ltd., Tencent Mobility Limited, Shanghai Xiehuai Investment Management L.P., the Taikang Onshore Entities (including Taikang Life Insurance Co., Ltd. and Shandong State-controlled Taikang Phase I Industrial Development Fund Partnership Enterprise (Limited Partnership)) and Shanghai Huaiyuan Investment Management L.P. (of which Shouyan Xu is the general partner) respectively hold 15.6%, 15.8%, 21.1%, 12.5%, 8.4%, 6.3% and 5.2% of equity interests in Shanghai Cango. The remaining equity interests in Shanghai Cango are held by nine other shareholders. Each shareholder of Shanghai Cango is either an affiliate of or identical to a shareholder of Cango Inc. For information as to the principal shareholders of Cango Inc., see “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”
- (2) Includes 25 subsidiaries that are majority owned by Shanghai Cango. These subsidiaries are located in various cities across China and are primarily involved in providing automotive financing facilitation services to financial institutions and car buyers.
- (3) Primarily involved in the operation of our automobile trading, including purchasing cars from OEMs to facilitate the sales of such cars to our registered dealers. One subsidiary, Shanghai Quanpin Insurance Brokerage Co., Ltd., wholly owns Fushun Insurance Brokerage Co., Ltd., which operates our insurance brokerage business.
- (4) Includes 28 subsidiaries that are wholly-owned by Shanghai Chejia, which primarily engages in providing financing leases to car buyers. Shanghai Cango, our consolidated VIE, currently owns 61.25% equity interest (directly and through Shanghai Wangtian Investment Co., Ltd., its wholly-owned subsidiary) in Shanghai Chejia and Express Group Development Limited, our wholly-owned consolidated subsidiary, owns 38.75% equity interest in Shanghai Chejia. As a result, Shanghai Chejia is our wholly-owned consolidated subsidiary.

Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders

PRC laws and regulations currently restrict foreign ownership and investment in VATS in China. As we plan to engage in VATS businesses, including value-added online services for platform participants, in the future, we currently conduct our operations mainly through Shanghai Cango, or the consolidated VIE, and its subsidiaries. We effectively control the consolidated VIE through a series of contractual arrangements with the consolidated VIE, its shareholders and Can Gu Long, as described in more detail below, which collectively enables us to:

- exercise effective control over our consolidated VIE and its subsidiaries;

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- receive substantially all the economic benefits of our consolidated VIE; and
- have an exclusive option to purchase all or part of the equity interests in the equity interest in or all or part of the assets of Shanghai Cango when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we are the primary beneficiary of Shanghai Cango and its subsidiaries. We have consolidated their financial results in our consolidated financial statements in accordance with U.S. GAAP.

In the opinion of Fangda Partners, our PRC legal counsel:

- the ownership structures of Can Gu Long and our consolidated VIE in China do not violate any applicable PRC law, regulation, or rule currently in effect; and
- the contractual arrangements among Can Gu Long, Shanghai Cango and its shareholders governed by PRC laws are valid, binding and enforceable in accordance with their terms and applicable PRC laws, rules, and regulations currently in effect, and do not violate any applicable PRC law, regulation, or rule currently in effect, except that the pledges in respect of Shanghai Cango's equity interests would not be deemed validly created until they are registered with the local administration for market regulation.

However, we have been further advised by our PRC legal counsel, Fangda Partners, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the aforesaid business we engage in, we could be subject to severe penalties including being prohibited from continuing operations. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure."

All the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. For additional information, see "Item 3 Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Any failure by our consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business." Such arbitration provisions have no effect on the rights of our shareholders to pursue claims against us under United States federal securities laws.

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Can Gu Long, our consolidated VIE, Shanghai Cango, and its subsidiaries, and the shareholders of Shanghai Cango.

Agreements that Provide Us with Effective Control over Our Consolidated VIE and Its Subsidiaries

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, each shareholder of Shanghai Cango, other than Taikang Life Insurance Co. Ltd., has pledged all of such shareholder's equity interest in Shanghai Cango as a security interest, as applicable, to respectively guarantee Shanghai Cango and its shareholders' performance of their obligations under the relevant contractual arrangement, which include the exclusive business cooperation agreement, exclusive option agreement and power of attorney. If Shanghai Cango or any of its shareholders breaches their contractual obligations under these agreements, Can Gu Long, as pledgee, will be entitled to certain rights regarding the pledged equity interests. In the event of such breaches, Can Gu Long's rights include being paid in priority with the equity interest of Shanghai Cango based on the monetary valuation that such equity interest is converted into or from the proceeds from auction or sale of the equity interest. Each of the shareholders of Shanghai Cango agrees that, during the term of the equity interest pledge agreements, such shareholder shall not transfer the equity interest, place or permit the existence of any security interest or other encumbrance on the equity interest or any portion thereof, without the prior written consent of Can Gu Long, except for the performance of the relevant contractual agreement. Can Gu Long is entitled to collect dividends distributed on the equity interest of Shanghai Cango, and Shanghai Cango's shareholders may receive dividends distributed on the equity interest only with prior written consent of Can Gu Long. The equity interest pledge agreements remain effective until all obligations under the relevant contractual agreements have been fully performed and all secured indebtedness have been fully paid. We have registered pledges of equity interest of shareholders other than the Taikang Life Insurance Co., Ltd. in Shanghai Cango with the relevant offices of the administration for market regulation in accordance with the PRC Civil Code.

Power of Attorney. Pursuant to the power of attorney, each shareholder of Shanghai Cango has irrevocably authorized Can Gu Long to exercise the following rights relating to all equity interests held by such shareholder in Shanghai Cango during the term of the power of attorney: to act on behalf of such shareholder as its exclusive agent and attorney with respect to all matters concerning its shareholding in Shanghai Cango, including without limitation to: (1) attending shareholders' meetings of Shanghai Cango; (2) exercising all the shareholder's rights and shareholder's voting rights such shareholder is entitled to under the laws of China and Shanghai Cango's Articles of Association, including but not limited to the sale or transfer or pledge or disposition of its shareholding in part or in whole; and (3) designate and appoint on behalf of such shareholder the legal representative, the directors, supervisors, the chief executive officer and other senior management members of Shanghai Cango. During the period that such shareholders remains a shareholder of Shanghai Cango, the power of attorney shall be irrevocable and continuously effective and valid from the date of execution of the power of attorney.

Agreement that Allow Us to Receive Economic Benefits from our Consolidated VIE and Its Subsidiaries

Exclusive Business Cooperation Agreement. Under the exclusive business cooperation agreement, Shanghai Cango appoints Can Gu Long as its exclusive services provider to provide Shanghai Cango with comprehensive technical support, consulting services and other services during the term of the exclusive business cooperation agreement. In consideration of the services provided by Can Gu Long, Shanghai Cango shall pay Can Gu Long fees equal to 100% of the consolidated basis net income of Shanghai Cango, which equals the balance of the gross income less the costs of Shanghai Cango acceptable to Can Gu Long and Shanghai Cango. Can Gu Long shall have exclusive and proprietary ownership, rights and interests in any and all intellectual properties arising out of or created during the performance of the exclusive business cooperation agreement. In addition, Shanghai Cango grants to Can Gu Long an irrevocable and exclusive option to purchase from Shanghai Cango, Shanghai Chejia and any other subsidiary controlled by Shanghai Cango, at Can Gu Long's sole discretion, any or all of the assets and business of Shanghai Cango, to the extent permitted under PRC law, at the lowest purchase price permitted by PRC law. Unless terminated in accordance with the provisions of the exclusive business cooperation agreement or terminated in writing by Can Gu Long, the exclusive cooperation agreement shall remain effective.

Agreements that Provides Us with the Option to Purchase the Equity Interest in Shanghai Cango

Exclusive Option Agreement. Pursuant to the exclusive option agreement, each of Shanghai Cango's shareholders have irrevocably granted Can Gu Long an irrevocable and exclusive right to purchase, or designate one or more persons agreed by the board of directors of Can Gu Long to purchase the equity interests in Shanghai Cango then held by its shareholders once or at multiple times at any time in part or in whole at Can Gu Long's sole and absolute discretion to the extent permitted by PRC law. The minimum price regulated by PRC law shall be the purchase price. Shanghai Cango and its shareholders have agreed that, without Can Gu Long's prior written consent, Shanghai Cango shall not in any manner supplement, change or amend the articles of association of Shanghai Cango, increase or decrease its registered capital, change its structure of registered capital in other manners, sell, transfer, mortgage or dispose of in any other manner any legal or beneficial interest in the equity interests in Shanghai Cango held by such shareholders, or allow the encumbrance thereon, except for the interest placed in accordance with the equity interest pledge agreement and the power of attorney. Shanghai Cango's shareholders shall promptly donate any profit, interest, dividend or proceeds of liquidation to Can Gu Long or any other person designated by Can Gu Long to the extent permitted under applicable PRC laws. This agreement will remain effective until all equity interests of Shanghai Cango held by its shareholders have been transferred or assigned to Can Gu Long or its designated person(s).

Financial Support Undertaking Letter

We executed a financial support undertaking letter addressed to Shanghai Cango, pursuant to which we irrevocably undertake to provide unlimited financial support to Shanghai Cango to the extent permissible under the applicable laws and regulations of the Cayman Islands and the PRC, regardless of whether Shanghai Cango has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. We will not request repayment of any outstanding loans or borrowings from Shanghai Cango if it or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. Each letter is effective from the date of the other agreements entered into among Can Gu Long, Shanghai Cango and its shareholders until the date on which all of the equity interests of Shanghai Cango have been acquired by Can Gu Long or its designated representative(s).

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We expect to provide the financial support if and when required with a portion of the proceeds from our initial public offering and proceeds from the issuance of equity or debt securities in the future.

D. Facilities

Our corporate headquarters is located in Shanghai, China, where we lease approximately 7,328 square meters of office space. We also maintain leased properties of approximately 7,089 square meters of office space in 20 other cities as our regional offices. In addition, we leased approximately 15,100 square meters of 16 warehouses in 16 provinces of China. We believe that we will be able to obtain adequate facilities, principally by lease, to accommodate our future expansion plans.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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 elsewhere in this annual report. 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 “Item 3. Key Information — D. Risk Factors” or in other parts of this annual report.

A. Operating Results

Overview

We are a leading technology-enabled automotive transaction service platform in China, connecting dealers, OEMs, car buyers and other industry participants. Our platform empowers and serves upstream and downstream of the automotive transaction value chain and offers comprehensive services, working together with platform participants to deliver simple and enjoyable car purchasing and ownership experience. We have extensive, technology-enabled service offerings that cover each key component of the automotive transaction value chain, including pre-sale automobile trading solutions, during-sale automotive financing facilitation services, and post-sale after-market services facilitation.

Automobile Trading Solutions

Automobile trading solutions will be the key catalyst to fuel our growth in the future. We enable B2B and B2C transactions among platform participants. In B2B transactions, we enable transactions among dealers, as well as that between dealers and OEMs by taking limited inventory risk, as we firstly aggregate demand from dealers, and then make bulk purchase of cars from OEMs and arrange delivery of cars to the dealers. In B2C transactions, we collaborate with online automotive advertising platforms to help prospective car buyers find suitable cars in our dealer network while providing them with our financing solutions and after-market services. Our customer acquisition channels include both dealer network and third party sales representative. Our dealer network, consisting of over 48,000 registered dealers as of December 31, 2020, places us at the center of automotive transaction value chain and enables us to closely connect with car buyers. In the three months ended December 31, 2020, there were 19,667 active dealers in our dealer network, representing 40.6% of our registered dealers. In addition, we assembled a dedicated team of third-party sales representatives in 2020, which further deepens our coverage in lower-tier cities with more granularities, complementing existing coverage through dealer network. In 2020, our B2B and B2C transactions reached 4,999 new car transactions with a total transaction value of RMB624.8 million (US\$95.8 million), representing a significant year-on-year growth from RMB11.4 million in 2019.

Automotive Financing Facilitation Services

We provide automotive financing facilitation services primarily by connecting financial institutions and car buyers, leveraging our vast dealer network. Funding for such financing solutions is provided by either third-party financial institutions or our wholly-owned consolidated subsidiary. We also provide value-added services, such as assistance with administrative procedures associated with car purchasing and financing. We create value proposition for financial institutions, as we bring underserved customers in lower tier cities to financial institutions, as well as offer integrated solutions that support the full life cycle of automotive financing transactions, including credit origination, credit assessment, credit servicing and delinquent asset management services. We have established in-depth collaboration with 12 third-party financial institutions through two models, which we refer to as the direct partnership model and co-partnership model. We also create value proposition for car buyers, as we provide car buyers with comprehensive one-stop services. We facilitated the financing of 329,293 new and used car purchases with a total amount of financing transactions of RMB27.7 billion (US\$4.2 billion) in 2020.

After-market Services Facilitation

We facilitate the sale of insurance policies and other after-market services for car buyers. As of December 31, 2020, we collaborated with 16 insurance brokers and companies to facilitate the sale of their products, such as auto insurance, accident insurance and health insurance, to car buyers. We continue to explore opportunities to facilitate other after-market services on our platform, including additional types of insurance, extended warranties, car customization, maintenance and repair, and personal wealth management products.

We continuously explore opportunities to collaborate with additional institutional funding partners. Since March 2020, we have collaborated with MYbank to facilitate financing transactions funded by a major commercial bank, and financing transactions facilitated under such arrangement accounted for 35.5% of the total amount of financing transactions facilitated in 2020.

We receive sales revenue and fee income for our automobile trading solutions. In automotive financing facilitation, we charge financial institutions service fee based on a percentage of the principal amount of the relevant financing transactions. For our after-market services facilitation, we earn fixed service fee for facilitating the sale of different kinds of insurance products, such as accident insurances, automotive insurances and health insurances. We have experienced strong growth in our results of operations. Our revenues increased by 42.5% from RMB1,440.1 million in 2019 to RMB2,052.4 million (US\$314.5million) in 2020. Our net income increased significantly from RMB404.9 million in 2019 to RMB3,373.4 million (US\$517.0 million) in 2020.

Key Factors Affecting Our Results of Operations

Our Solution and Service Offerings and Pricing

Our revenue growth depends on our ability to improve existing solutions and services provided, continue identifying evolving business needs, refine our collaboration models with business partners and provide value-added services. Our revenue growth also depends on our abilities to effectively price our solutions and services and monetize new business opportunities. We historically derived a major portion of our revenues from automotive financing facilitation services. As such, our financial performance depends in part on our ability to collaborate with financial institutions to offer automotive financing solutions that are attractive to prospective car buyers. The pricing of automotive financing solutions provided to car buyers are based on our recommendations to financial institutions, the internal strategies of financial institutions and market interest rates. Our ability to price our solutions and services competitively enables us to attract car buyers, dealers and other industry participants and further grow our platform. Furthermore, our product designs affect the type of car buyers that our automotive financing solutions attract, which in turn affects our credit performance.

In 2019, we accelerated the growth of our after-market service facilitation business by actively refining our cross-selling strategy, particularly relating to automotive insurances. We are also in the process of expanding and monetizing our automobile trading solutions. We take a proprietary inventory position of cars and sell such cars to dealers. Such business initiatives, and our ability to execute them, may affect the growth of our business and profitability. Since our new solution and service offerings may have different pricing strategies and cost structures, expansion of our business and changes to our revenue mix may affect our financial position and profitability.

As a result of the Acquisition, we have started to consolidate the results of operations of Shanghai Chejia and recognize leasing income as part of our revenue since the end of September 2018. The amount of financing transactions funded by Shanghai Chejia decreased from RMB2,084.4 million in 2019 to RMB536.5 million (US\$82.2 million) in 2020.

Car Buyer Engagement and Dealer Network

Our revenue growth has been largely driven by the expansion of our car buyer base and the corresponding increase in the amount of automotive financing solutions facilitated through our platform. We engage car buyers primarily through our network of registered dealers. Our ability to expand our car buyer base depends on the size and quality of our network of registered dealers as well as our ability to expand such network nationwide in China. We plan to further expand our dealer network and strengthen our partnerships with existing dealers. A dealer may receive commissions from us or the relevant financial institution, depending on the arrangement among us, the dealer and the relevant financial institution. Commissions paid by us are recorded as our cost of revenue. Our costs related to car buyer engagement also consist of personnel costs of our direct sales team, which was comprised of over 2,000 professionals as of December 31, 2020 and is responsible for either directly managing our registered dealers or providing training and supervision to dealer financial managers employed by our registered dealers or sales agents. Our ability to deploy our direct sales team to manage our registered dealer network in a cost-efficient manner will affect our financial performance.

We also collaborate with leading online automotive advertising platforms to tap into the large user base of these platforms. In addition, we started to collaborate with sales representatives in 2020 to enhance our sales efforts. Sales representatives introduce our solutions to prospective car buyers and car owners and generate leads to our platform. Our success in such collaborations will affect our ability to broaden our prospective car buyer base in a cost-efficient manner.

Market Conditions and Government Policies in China

The demand for our services is dependent upon overall market conditions in China. China's automotive industry, especially the automotive transaction industry and automotive finance industry, may be affected by, among other factors, the general economic conditions in China, the growth of disposable income as well as the availability and cost of credit available to finance car purchases. Car buyers have been increasingly willing to finance car purchases with debt. With the expansion of China's automotive industry, dealers, financial institutions, OEMs and other industry participants have been utilizing technology-enabled automotive transaction service platforms to solve their pain points and capture market opportunities. The growth of our business will depend in part of the continuation of these trends.

Governmental policies affecting the automotive finance industry in China are developing and evolving, creating both challenges and opportunities that could affect our financial performance. New regulations may restrict our ability to collaborate with financial institutions and/or directly charge fees from car buyers. We will continue to make efforts to ensure that we are compliant with the existing laws, regulations and governmental policies relating to our industry and to comply with new laws and regulations or changes under existing laws and regulations that may arise in the future. While new laws and regulations or changes to existing laws and regulations could make our business operations more difficult or expensive, or result in changes to our solutions and services offerings and hence our ability to price our solutions, these events could also provide new product and market opportunities.

Ability to Retain Existing Financial Institutions and Engage New Financial Institutions

The growth of our business is dependent on our ability to retain existing financial institutions we collaborate with and engage new financial institutions. We need to continue to provide high quality solutions and services to financial institutions, which will affect whether they will continue to fund automotive financing solutions facilitated through our platform. In addition, our collaborations with financial institutions may be affected by factors beyond our control, such as whether automotive financing solutions are perceived as an attractive asset class, operational disruption of our financial institutions, general economic conditions and the regulatory environment. Our ability to diversify our financial institution base will enhance the overall stability and sufficiency of funding to facilitate automotive financing transactions.

Ability to Perform Credit Assessment and Delinquent Asset Management Effectively

We historically derived substantially all of our revenues from automotive financing facilitation services, which primarily include credit origination, credit assessment, credit servicing and delinquent asset management for financial institutions. Although financial institutions have their own risk management procedures and make the ultimate decisions as to credit approvals, the default of a financing transaction facilitated through our platform may still cause us reputational damage or direct economic loss, depending on the funding model for the relevant automotive financing solutions. The quality of our risk management efforts thus affects our results of operations.

Our arrangements with financial institutions differ as to the allocation of credit risk exposure. Changes to the mix of funding models for a particular period will have an impact on our financial position and results of operations for such period. We are not obligated to bear credit risk for financing transactions funded by certain financial institutions. Nonetheless, any increase in overdue ratio experienced by such financial institutions with respect to financing transactions facilitated through our platform may affect its willingness to participate on our platform. Under our arrangements with certain other financial institutions, we are obligated to purchase the relevant financing receivables from financial institutions upon certain specified events of default by car buyers. The proportion of financing transactions under such arrangement may increase in the future. As a result of the Acquisition, we record financing lease receivables in relation to financing leases funded by Shanghai Chejia on our consolidated balance sheet. As such, we bear credit risk as to such financing leases. We may expand the amount of financing leases provided by Shanghai Chejia, which will increase our exposure to credit risk.

After a delinquency occurs, we aim to collect repayments and/or recover the car collateral from the car buyer. We rely on our delinquent asset management team to collect repayments and recover the car collateral at different stages of delinquent asset management process. Our ability to collect repayments and recover car collaterals in a cost-effective way may affect our relationships with financial institutions and/or results of operations.

Operating Leverage of Our Platform

We operate a platform that connects the industry participants throughout the entire automotive transaction value chain, and our business model is highly scalable. Personnel costs have been and we expect will continue to be a large component of our operating cost and expenses. To maintain and improve the operating leverage of our platform we must manage to grow our business by increasing productivity and continuing automating our operations with technology.

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Ability to Compete Effectively

Our business and results of operations depend on our ability to compete effectively. Overall, our competitive position may be affected by, among other things, our service quality and our ability to price our solutions and services competitively. We will continue to invest in technologies to improve our service quality and user experience. We aim to enhance our speed for processing credit applications by refining our credit assessment model and improving the level of automation in credit assessment. As new competitors or new solutions and services emerges that compete with ours, we will need to continue to introduce new or enhance existing solutions and services to continue to attract dealers, financial institutions, car buyers and other industry participants. Whether and how quickly we can do so will have a significant impact on the growth of our business.

Transaction Volume Metrics

We regularly review a number of transaction volume metrics, including the following metrics, to monitor our transaction volume, identify trends, formulate financial projections and make strategic decisions. We believe that these transaction volume metrics are useful to investors because they are frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

The tables below set forth the transaction volume metrics in the periods presented:

	For the Year Ended December 31,		
	2018	2019	2020
Number of financing transactions facilitated	356,576	390,140	329,293
Number of B2B and B2C transactions	66	118	4,999

The table below sets forth a breakdown for the amount of financing transactions we facilitated in the periods presented:

	As of / For the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Outstanding principal of financing transactions facilitated	34,256,376	40,031,750	43,504,835	6,667,408
Amount of financing transactions facilitated	21,719,395	28,054,293	27,697,739	4,244,864

We define “financing transactions” as loans and financing leases. Financing transactions we facilitate include financing transactions funded by financial institutions and financing transactions funded by Shanghai Chejia. We define “amount of financing transactions” as the principal amount of financing transactions we facilitated in a specified period;

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Credit Performance Metrics

As of December 31, 2020, the total outstanding balance of financing transactions for which we are not obligated to bear credit risk was RMB15.9 billion (US\$2.4 billion), representing 36.5% of the total outstanding balance of financing transactions we facilitated. The remainder was funded by either (i) financial institutions from which we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers or (ii) Shanghai Chejia, our wholly-owned consolidated subsidiary.

We monitor credit performance based on M1+ overdue ratio and M3+ overdue ratio. We define “M1+ overdue ratio” as (i) exposure at risk relating to financing transactions for which any installment payment is 30 to 179 calendar days past due as of a specified date, divided by (ii) exposure at risk relating to all financing transactions which remain outstanding as of such date, excluding amounts of outstanding principal that are 180 calendar days or more past due. We define “M3+ overdue ratio” as (i) exposure at risk relating to financing transactions for which any installment payment is 90 to 179 calendar days past due as of a specified date, divided by (ii) exposure at risk relating to all financing transactions which remain outstanding as of such date, excluding amounts of outstanding principal that are 180 calendar days or more past due. Amounts which are 180 calendar days or more past due are deducted from exposure at risk, as such amounts are typically charged off by third-party financial institutions. However, the relevant financial institutions may follow charge-off policies that differ from such practice. We believe that these credit performance metrics are useful to investors because they are frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

The table below sets forth M1+ overdue ratio and M3+ overdue ratio for all financing transactions which we facilitated and remained outstanding as of the specified dates.

	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	As of September 30,	December 31,	March 31,	June 30,	September 30,	December 31,
	2018				2019				2020			
	(%)											
M1+ overdue ratio	1.09	0.92	0.83	0.74	0.77	0.72	0.85	0.85	2.00	1.59	1.11	0.98
M3+ overdue ratio	0.46	0.46	0.36	0.37	0.37	0.30	0.33	0.40	0.56	0.84	0.53	0.42

M1+ overdue ratio increased from 0.85% as of December 31, 2019 to 0.98% as of December 31, 2020, and M3+ overdue ratio increased from 0.40% as of December 31, 2019 to 0.42% as of December 31, 2020, which is consistent with the conditions in China’s consumer credit market in 2020, as the COVID-19 pandemic adversely affected borrowers’ ability to repay.

Risk Assurance Liabilities

Under our arrangements with certain financial institutions, we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. After purchasing such financing receivables, security interest in the collateral is also transferred to us. We refer to our arrangement to purchase financing receivables from financial institutions as our risk assurance obligation.

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We incur risk assurance liabilities in connection with our risk assurance obligation. The table below sets forth the movement of risk assurance liabilities in the periods presented.

	As of / in the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Balance at the beginning of the period	129,935	173,210	259,952	39,839
Fair value of risk assurance liabilities upon the inception of new loans	121,329	166,911	348,921	53,475
Performed risk assurance liabilities	(77,700)	(114,427)	(150,313)	(23,036)
Net loss/(gain) on risk assurance liabilities	(354)	34,258	2,268	348
Balance at the closing of the period	<u>173,210</u>	<u>259,952</u>	<u>460,829</u>	<u>70,625</u>

Risk assurance liabilities consist of a non-contingent aspect and a contingent aspect. At the inception of each financing transaction for which we have risk assurance obligation, we recognize the non-contingent aspect at fair value, considering the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction. The contingent aspect relates to the contingent loss arising from our risk assurance obligation. The service fees payable to us, net of risk assurance liabilities allocated from the consideration in connection with such financing transaction, are initially recognized as revenues.

When we perform our risk assurance obligation upon a car buyer's default, we record a corresponding deduction to risk assurance liabilities. Prior to the launch of co-partnership model, we primarily satisfied our risk assurance obligation to the relevant financial institutions by making installment payments on delinquent financing transactions. We also performed our risk assurance obligation through purchasing financing receivables. Since the third quarter of 2017, we have recorded additional financing receivables as we purchase such financing receivables upon certain specified events of car buyers' defaults. Upon recovery of a car, we derecognize the financing receivable and record the recovered car at its estimated fair value, less cost to sell, as other non-current assets on the consolidated balance sheet.

The non-contingent aspect of risk assurance liabilities is reduced over the term of the arrangement, which we recognize as gain on risk assurance liabilities, as we are released from our risk assurance obligation on a loan-by-loan basis based on car buyers' repayments. The contingent aspect is recognized as loss on risk assurance liabilities when car buyer's default is probable, and the amount of loss is estimable. We consider the underlying risk profile, including delinquency status, overdue period and historical loss experience when assessing the probability of contingent loss. Car buyers are grouped based on common risk characteristics, such as product type. We measure contingent loss based on the future payout estimated using the historical default rates of a portfolio of similar loans less the fair value of the recoverable collateral.

Components of Results of Operations

Revenues

Our revenues mainly consist of loan facilitation income and other related income, leasing income, after-market services income, automobile trading income and others. We generate loan facilitation income by providing automotive financing facilitation services to financial institutions and car buyers. Our leasing income relates to financing lease payments from car buyers to Shanghai Chejia. Our after-market services income relates to our facilitation of the sale of insurance policies and delinquent asset management services. Our automobile trading income relates to our automobile trading solutions.

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The following table sets forth components of our revenues, both in absolute amount and as a percentage of our revenues, for the periods presented.

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Revenues:							
Loan facilitation income and other related income	916,280	84.0	913,837	63.5	891,837	136,680	43.5
Leasing income	59,093	5.4	300,078	20.8	286,079	43,844	13.9
After-market services income	100,053	9.2	205,998	14.3	241,193	36,964	11.8
Automobile trading income	6,584	0.6	11,414	0.8	624,774	95,751	30.4
Others	9,403	0.9	8,742	0.6	8,549	1,310	0.4
Total	1,091,414	100.0	1,440,069	100.0	2,052,432	314,549	100.0

Operating Cost and Expenses

Our operating cost and expenses consist of cost of revenue, sales and marketing expenses, general and administrative expenses, research and development expenses, net loss/(gain) on risk assurance liabilities and provision for credit losses. The following table sets forth our operating expenses, both in absolute amount and as a percentage of our revenues, for the periods presented:

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Operating cost and expenses:							
Cost of revenue	430,059	39.4	539,267	37.4	1,098,121	168,294	53.5
Sales and marketing	167,244	15.3	192,811	13.4	195,894	30,022	9.5
General and administrative	151,076	13.8	236,551	16.4	265,691	40,719	12.9
Research and development	46,709	4.3	57,406	4.0	62,596	9,593	3.0
Net loss/(gain) on risk assurance liabilities	(354)	(0.0)	34,258	2.4	2,268	348	0.1
Provision for credit losses	19,960	1.8	56,479	3.9	109,565	16,792	5.3
Total	814,695	74.6	1,116,772	77.5	1,734,135	265,768	84.5

Cost of Revenue

Our cost of revenue consists of (i) cost of vehicle (ii) commission paid to car dealerships, (iii) cost for staff responsible for risk management and delinquent asset management, (iv) incentive fee to sales staff, (v) leasing interest and (vi) others. The following table sets forth components of our cost of revenue, both in absolute amount and as a percentage of our revenues, for the periods presented. Primarily as a result of the increase in cost of revenue from cost of vehicle, other components of cost of revenue each decreased as a percentage of cost of revenues in the full year of 2020, compared to the full year of 2019.

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	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Cost of revenue:							
Cost of vehicle	6,597	0.6	11,176	0.8	619,227	94,901	30.2
Leasing interest expense	21,223	1.9	116,966	8.1	132,323	20,279	6.4
Commission to car dealerships	203,846	18.7	158,101	11.0	117,986	18,082	5.7
Staff incentive	71,539	6.6	98,173	6.8	84,047	12,881	4.1
Staff cost	59,631	5.5	72,999	5.1	73,975	11,337	3.6
Others	67,223	6.2	81,852	5.7	70,563	10,814	3.4
Total	430,059	39.4	539,267	37.4	1,098,121	168,294	53.5

Cost of vehicle increased from RMB11.2 million in 2019 to RMB619.2 million (US\$94.9 million). This was primarily due to the increase in the amount of automobile trading transactions.

Commission paid to car dealerships decreased from RMB158.1 million in 2019 to RMB118.0 million (US\$18.1 million) in 2020. This was due to the decrease in the average commission rate in 2020. Commission paid to car dealerships decreased from RMB203.8 million in 2018 to RMB158.1 million in 2019. The decrease was primarily due to the lower average amount of commission paid to dealers in each financing transaction as dealers charged borrowers directly in certain financing transactions where the interest rates or service fee rates were relatively lower.

Staff cost consists of compensation for employees responsible for risk management and delinquent asset management. Staff cost was RMB73.0 million in 2019 and RMB74.0 million (US\$11.3 million) in 2020 respectively. Staff cost increased from RMB59.6 million in 2018 to RMB73.0 million in 2019, which was in line with the increase in the number of our employees, and staff cost as a percentage of our revenues decreased from 5.5% to 5.1% during the same period, primarily due to economies of scale.

Staff incentive consists of incentive fee to our sales staff. Staff incentive decreased from RMB98.2 million in 2019 to RMB84.0 million (US\$12.9 million) in 2020, which was in line with the decrease in the number of financing transactions. Staff incentive increased from RMB71.5 million in 2018 to RMB98.2 million in 2019, and it as a percentage of our revenue increased from 6.6% to 6.8% in the same period due to increases in both (i) transaction volume and (ii) average incentive.

Leasing interest expense increased from RMB117.0 million in 2019 to RMB132.3 million (US\$20.3 million) in 2020, primarily due to the fact that we financed more financing leases with borrowings. Leasing interest expense increased from RMB21.2 million in 2018 to RMB117.0 million in 2019, primarily due to an increase in the amount of finance leases funded by Shanghai Chejia in 2019.

Other costs are primarily comprised of cost for telematics devices, cost for collection, as well as other ordinary course expenses. Other costs decreased from RMB81.9 million in 2019 to RMB70.6 million (US\$10.8 million) in 2020, primarily due to the decrease in GPS cost. Other costs increased from RMB67.2 million in 2018 to RMB81.9 million in 2019, and other costs as a percentage of our revenues decreased from 6.2% to 5.7% during the same period, primarily due to economies of scale.

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Sales and Marketing

Sales and marketing expenses consist primarily of compensation related to our sales staff but exclude incentives paid to them.

General and Administrative

General and administrative expenses consist primarily of compensation related to accounting and finance, legal, human resources and other administrative personnel, professional service fee as well as rent for office spaces related to various administrative activities.

Research and Development

Research and development expenses consist primarily of compensation related to research and development personnel, depreciation and amortization of equipment and costs of data center services.

Net Loss/(Gain) on Risk Assurance Liabilities

Risk assurance liabilities consist of a non-contingent aspect and a contingent aspect. At the inception of each financing transaction for which we have risk assurance obligation, we recognize the non-contingent aspect at fair value. The non-contingent aspect of risk assurance liabilities is reduced over the term of the arrangement, which we recognize as gain on risk assurance liabilities, as we are released from our risk assurance obligation on a loan-by-loan basis based on car buyers' repayments. The contingent aspect is recognized as loss on risk assurance liabilities when car buyer's default is probable and is measured as the future payout estimated using the historical default rates of a portfolio of similar loans.

Provision for Credit Losses

Under our arrangements with certain financial institutions, we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. In addition, we have started to record finance lease receivables relating to the financing leases funded by Shanghai Chejia on our balance sheet since the completion of the Acquisition at the end of September 2018. The allowance for financing receivables is calculated using the probability of default and loss given default model based on pools of financing receivables with similar risk characteristics, including product type to arrive at an estimate of incurred losses in the portfolio. We recognize any increase in allowance for financing receivables as provision for credit losses for the relevant period.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. In addition, upon payment of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

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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 assessable profit that was earned in or derived from the Hong Kong subsidiary during the periods presented. Hong Kong does not impose a withholding tax on dividends.

China

Generally, our subsidiary and consolidated variable interest entity in China are subject to enterprise income tax on their taxable income in China at a rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards. In November 2018, Shanghai Cango received the High and New Technology Enterprise certificate and is entitled to enjoy a preferential tax rate of 15% for the years ended December 31, 2018, 2019 and 2020.

We are subject to VAT at a rate of 6% on the services we provide to customers, and VAT at a rate of 13% on our sales of products starting from April 1, 2019 (such rate was 16% from May 1, 2018 to April 1, 2019), less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law.

Dividends paid by our wholly foreign-owned subsidiary 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 the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority, in which case the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%.

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 PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%.

Critical Accounting Policies

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

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

Revenue Recognition

Our revenues are derived principally from 1) loan facilitation services and post-origination administrative services, 2) finance lease services, 3) after-market services facilitation services, and 4) automobile trading income, 5) other income.

On January 1, 2019, we adopted ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective method applied to those contracts which were not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under ASC 605, *Revenue recognition*. The cumulative effect of adopting ASC 606 resulted in an increase of RMB17,585,853 to the opening balance of retained earnings at January 1, 2019. Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to be entitled to in exchange for those goods or services, net of value-added tax (“VAT”). We determine revenue recognition through the following steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Loan facilitation services and post-origination administrative services (“PAS”)

We entered into non-risk assured and risk assured facilitation arrangements with various financial institutions. Borrowers that pass our credit assessment are recommended to the financial institutions. Once the borrower is independently approved by the financial institutions, the financial institutions will directly fund the borrower’s automobile purchase and we will earn a loan facilitation fee from the financial institution and borrowers. We will provide PAS, such as tracking through telematics devices in the automobiles; and sending short-message-service (“SMS”) payment reminder to borrowers, throughout the terms of the loans. In addition, for certain arrangements, we provide risk assurance on the principal and accrued interest repayments of the defaulted loans to various financial institutions. We determined that we are not the legal lender or legal borrower in the loan origination and repayment process, respectively. Therefore, we do not record loan receivables and payable arising from the loans between borrowers and financial institutions on our consolidated balance sheet.

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We determine our customers to be both the financial institutions and borrowers. We consider the loan facilitation service, PAS and risk assurance services as separate services, of which the risk assurance service and the PAS is accounted for in accordance ASC 460, *Guarantees* (“ASC 460”).

The transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring the promised services to the customer, net of value-added tax. The transaction price includes variable service fees which are contingent on the borrower making timely repayments. Variable consideration is estimated using the expected value method based on historical default rate, current and forecasted borrower repayment trends and is limited to the amount of variable consideration that is probable not to be reversed in future periods. As a result, the estimation of variable consideration involves significant judgement. We make the assessment of whether the estimate of variable consideration is constrained. Any subsequent changes in the transaction price will be allocated to the performance obligations on the same basis as at contract inception.

We first allocate the transaction price to the risk assurance liabilities at fair value in accordance with ASC 460. The remaining transaction price is then allocated to the loan facilitation services and PAS on a relative standalone selling price basis. We do not have observable price for the loan facilitation services and PAS because the services are not provided separately. As a result, the estimation of standalone selling price involves significant judgement. We estimate the standalone selling price of the loan facilitation and PAS using the expected cost plus a margin approach.

The fee allocated to loan facilitation is recognized as revenue upon each successful loan facilitation, while the fee allocated to PAS are deferred and amortized over the period of the loan on a straight-line method as the PAS services are performed. PAS revenue recognized in the years ended December 31, 2018, 2019 and 2020 is RMB93,873,096, RMB86,251,498 and RMB73,775,464 (US\$11,306,585), respectively.

The loan facilitation services and PAS are recorded as Loan facilitation income and other related income in the consolidated statements of comprehensive income.

Finance lease services

We provide automobile finance lease services to individual borrowers. Financing lease income is recognized using the effective interest method. Initial direct cost received and direct origination costs are generally deferred and amortized over the term of the related finance lease receivables using the effective interest method and are removed from the consolidated balance sheets when the related finance lease receivables are sold, charged off or paid in full.

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After-market services income

We provide after-market services to car buyers which mainly include insurance facilitation service and car recovery and disposal services.

After-market insurance facilitation service mainly involve facilitating accident insurances, automobile insurances, and health insurances. We first allocate the fair value of indemnification service under ASC 460 and then allocates the remaining consideration to the after-market insurance facilitation service. After-market insurance facilitation service income is recognized at the point of time facilitation services are performed

After-market car recovery and disposal services income mainly include delinquent asset management income for car recovery and disposal services, which is recognized at the point of time when we deliver the relevant service.

Automobile trading transaction

We provide car trading services as a principal in which we purchase vehicles from suppliers which are vehicle manufacturers or their first-tier car dealerships and sells the vehicles to customers which are other car dealerships. The revenue generated from sale of vehicles is recognized at a point in time when the control of the vehicles is transferred from us to the customers when the vehicles are delivered and their titles are passed on to the customers.

Revenue recognition under ASC 605

Before January 1, 2019, we consider the loan facilitation services and the PAS as a multiple element revenue arrangement under ASC 605, and the financial institutions as the sole customer in the arrangement. We first allocate the consideration to the risk assurance liability equaling to the fair value of the risk assurance liability if we provide a risk assurance obligation to the financial institution in the arrangement. The remaining consideration is then allocated to the loan facilitation services and PAS. We do not have vendor specific objective evidence (“VSOE”) of selling price for the loan facilitation services and PAS because we do not provide loan facilitation services or PAS on a standalone basis. There is also no third-party evidence of the prices charged by third-party service providers when such services are sold separately. As a result, we use our best estimate of selling prices of loan facilitation services and PAS as the basis of revenue allocation. Nevertheless, the amount allocated to the delivered loan facilitation services is limited to the amount that is not contingent on the delivery of the undelivered PAS in accordance with ASC 605-25. The loan facilitation services and PAS are recorded as revenue in the consolidated statements of comprehensive income.

For loan facilitation services, PAS and delinquent asset management fees, we recognize revenue when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured, in accordance with ASC 605. As collectability is uncertain in relation to the remaining loan facilitation services income due to the potential default by borrowers such that they are not considered to be fixed or determinable, the remaining loan facilitation service income is recorded on a cash basis.

Risk Assurance Liabilities

We provide risk assurance to various financial institution customers. The risk assurance liability requires us to either make delinquent installment repayments or purchase the loans after a specified period on an individual loan basis. The risk assurance liability is exempted from being accounted for as a derivative in accordance with ASC 815-10-15-58.

The risk assurance liability consists of two components. Our obligation to stand ready to make delinquent payments or to purchase the loan over the term of the arrangement (the non-contingent aspect) is accounted for in accordance with ASC 460 *Guarantees* ("ASC 460"). The contingent obligation relating to the contingent loss arising from the arrangement is accounted for in accordance with ASC 450 *Contingencies* ("ASC 450"). At inception, we recognize the non-contingent aspect of the risk assurance liability at fair value, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction.

Subsequent to the initial recognition, the non-contingent aspect of the risk assurance liability is reduced over the term of the arrangement as we are released from our stand ready obligation on a loan-by-loan basis based on the borrower's repayment of the loan principal. The contingent loss arising from the obligation to make future payments is recognized when borrower default is probable and the amount of loss is estimable. We consider the underlying risk profile including delinquency status, overdue period, and historical loss experience when assessing the probability of contingent loss. Borrowers are grouped based on common risk characteristics, such as product type. We measured contingent loss based on the future payout of the arrangement estimated using the historical default rates of a portfolio of similar loans less the fair value of the recoverable collateral.

Derivative Instruments

In 2019, we entered into cross-currency interest rate swap contracts that allow us to buy US Dollars at a pre-determined exchange rate and repay US Dollars borrowing with fixed interest rate on maturity date. The total notional amount of the outstanding cross-currency interest rate swap contract was RMB311.6 million and nil as of December 31, 2019 and 2020, respectively. The cross-currency interest rate swap contracts matured in July 2020.

We account for the cross-currency interest rate swap contract in accordance with ASC 815, Derivatives and hedging. The cross-currency interest rate swap contract was measured at fair value and classified as accrued expenses and other current liabilities within the condensed consolidated balance sheets. We estimate the fair value of the cross-currency interest rate swap contract at each reporting period using a discounted cash flow model by using future net expected cashflow discounted at foreign exchange forward adjusted market yield. Any change in the fair value of the cross-currency interest rate swap contracts are recorded as other expense in the condensed consolidated statement of comprehensive income for each period until the contract matures, is terminated, or sold. During the years ended December 31, 2019 and 2020, the unrealized losses recognized in the comprehensive income related to the cross-currency interest rate swap contract were RMB3.3 million and nil, respectively.

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The cross-currency interest rate swap contract may expose us to credit risk to the extent that the counterparty may be unable to meet the terms of the arrangement. We mitigate this credit risk by transacting with major financial institutions with high credit ratings. We did not pledge cash collateral for our cross-currency interest rate swap contract as of December 31, 2019 and 2020.

Income Taxes

We recognize income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. We record a valuation allowance against the amount of deferred tax assets that it determines is not more-likely-than-not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date.

We apply the provisions of ASC 740, *Income Taxes* (“ASC 740”), in accounting for uncertainty in income taxes. ASC 740 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. We have elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2018, 2019 and 2020, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

Allowance for finance lease receivables

The allowance for finance lease receivables is calculated using the probability of default (“PD”) and loss given default (“LGD”) model based on pools of finance lease receivables with similar risk characteristics, including product type to arrive at an estimate of incurred losses in the portfolio. Allowance is calculated by multiplying the PD by LGD for each pool. The PD and LGD model takes into consideration factors of historical delinquency migration to loss and loss given default. We adjust the allowance that is determined by the PD and LGD model for various qualitative factors, including gross-domestic product rates, per capita disposable income, interest rates and consumer price indexes and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Finance lease receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when we have determined the balance is uncollectable. In general, we consider finance fee receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments; (iii) the amount remained outstanding 180 days past due and therefore deemed uncollectable; or (iv) the collateral are physically recovered.

Share-Based Compensation

We account for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation* (“ASC 718”).

We recognize the compensation costs net of estimated forfeitures using the straight-line method, over the applicable vesting period for each separately vesting portion of the award. The estimate of forfeitures is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures is recognized through a cumulative catch-up adjustment in the period of change and also impact the amount of share-based compensation expense to be recognized in future periods.

A change in any of the terms or conditions of share options is accounted for as a modification of share options. We calculate the incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, we recognize incremental compensation cost in the period the modification occurred. For unvested options, we recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. We, with the assistance of an independent third-party valuation firm, determined the fair value of share-based awards granted to employees.

Stock Option Plan 2018

On May 25, 2018, the board of directors of Cango Inc. approved the employee stock option plan, or the ESOP, for the purpose of providing incentives and rewards to employees and executives who contribute to the success of our operations, and approved 27,845,526 of share options under the ESOP. The exercise price for such options was initially set at US\$1.7951 per share. In March 2021, we adjusted the option exercise price to US\$1.2951 per share due to the cash dividend paid in April 2021. Options under the ESOP vest over a total period of four years from the grant date, pursuant which 50% of the options will vest upon the second anniversary of the grant date and 25% of the options will vest upon the third anniversary and fourth anniversary of the grant date, respectively. Any unvested options will be forfeited upon termination of a grantee’s employment with us, unless otherwise determined by the ESOP’s administrator.

In May 2018, we granted 5,569,105 options to purchase ordinary shares to certain eligible employees. In February 2019, we granted another 5,569,105 options. In October 2020, we granted 8,353,658 options to certain eligible employees.

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We calculated the estimated fair value of the options on the respective grant dates using the binomial option pricing model with assistance from an independent valuation firm. Assumptions are summarized in the following table:

	As of		
	25-May-18	15-Feb-19	15-Oct-20
Risk-free interest rate (%)	2.93	2.66	0.74
Volatility (%)	38.7	38.7	37.6
Expected exercise multiple	2.8	2.3	2.3
Dividend yield	Nil	Nil	Nil
Expected life (in years)	10	10	10
Exercise price (US\$)	1,7951	1,7951	1,7951
Fair value of ordinary shares (RMB)	37.82	26.8	19.03

We recognized compensation cost for the share options on a graded vesting basis. The total share-based compensation expenses recognized by the Company for the share option granted were RMB33.4 million, RMB82.3 million and RMB78.8 million (US\$12.1 million) for 2018, 2019 and 2020, respectively.

Determining the fair value of the share options required us to make complex and subjective judgments, assumptions and estimates, which involved inherent uncertainty. Had we used different assumptions and estimates, the resulting fair value of the share options and the resulting share-based compensation expenses could have been different. Assumptions and estimates are not necessary to determine the fair value of our ordinary shares after the listing of our ADSs on the NYSE.

We recognized RMB78.8 million (US\$12.1 million) of share-based compensation expenses in 2020.

In determining the fair value of our ordinary shares, we applied the income approach / discounted cash flow, or DCF, analysis based on our projected cash flow using management's best estimate as of the valuation date. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of ordinary shares include:

- Weighted average cost of capital, or WACC: The discount rates we listed in the table above were based on the WACCs determined based on a consideration of the factors, including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.
- Comparable companies: In deriving the WACCs, which are used as the discount rates under the income approach, nine publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) online retail and mobile commerce companies or companies that provide credit facilitation services and (ii) China-based companies that are publicly listed in the United States, publicly listed companies in China and United States-based publicly listed companies.

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- Discount for lack of marketability, or DLOM: DLOM was quantified by the Finnerty's Average-Strike put options model. Under this option-pricing model, which assumed that the put option is struck at the average price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM. This option pricing model is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of a liquidity event, such as an initial public offering, and estimated volatility of our shares. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. The lower DLOM is used for the valuation, the higher is the determined fair value of the ordinary shares.

The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: no material changes in the existing political, legal and economic conditions in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving our forecasts were assessed in selecting the appropriate discount rates.

Prior to our initial public offering, the estimated fair value of our ordinary shares at their respective grant dates, was determined with the assistance of an independent third-party valuation firm. Upon the completion of our initial public offering, the estimated fair value of our ordinary shares is based on our share price.

Results of Operations for Continuing Operations

The following tables set forth a summary of our consolidated results of operations for the periods presented, in absolute amount and as a percentage of our revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands)						
Revenues:							
Loan facilitation income and other related income	916,280	84.0	913,837	63.5	891,837	136,680	43.5
Leasing income	59,093	5.4	300,078	20.8	286,079	43,844	13.9
After-market services income	100,053	9.2	205,998	14.3	241,193	36,964	11.8
Automobile trading income	6,584	0.6	11,414	0.8	624,774	95,751	30.4
Others	9,403	0.9	8,742	0.6	8,549	1,310	0.4
Total revenues	1,091,414	100.0	1,440,069	100.0	2,052,432	314,549	100.0
Operating cost and expenses:							
Cost of revenue	430,059	39.4	539,267	37.4	1,098,121	168,294	53.5
Sales and marketing	167,244	15.3	192,811	13.4	195,894	30,022	9.5
General and administrative	151,076	13.8	236,551	16.4	265,691	40,719	12.9
Research and development	46,709	4.3	57,406	4.0	62,596	9,593	3.0
Net (gain) loss on risk assurance liabilities	(354)	(0.0)	34,258	2.4	2,268	348	0.1
Provision for credit losses	19,960	1.8	56,479	3.9	109,565	16,792	5.3
Total operating cost and expenses	814,695	74.6	1,116,772	77.5	1,734,135	265,768	84.5
Income from operations	276,720	25.4	323,296	22.5	318,297	48,781	15.5
Interest and investment income	61,465	5.6	96,005	6.7	72,807	11,158	3.5
Income/(loss) from equity method investments	42,685	3.9	(926)	(0.1)	—	—	—
Fair value change of equity investment	—	—	41,582	2.9	3,315,476	508,119	161.5
Interest expense	(19,011)	(1.7)	(13,458)	(0.9)	(2,759)	(423)	(0.1)
Foreign exchange gain (loss), net	1,447	0.1	5,141	0.4	(8,848)	(1,356)	(0.4)
Other income, net	32,701	3.0	41,300	2.9	49,139	7,531	2.4
Other expenses	—	—	(5,121)	(0.4)	(838)	(128)	(0.0)
Net income before income taxes	396,007	36.3	487,819	33.9	3,743,274	573,682	182.4
Income tax expenses	(89,083)	(8.2)	(82,960)	(5.8)	(369,854)	(56,683)	(18.0)
Net income	306,924	28.1	404,859	28.1	3,373,420	516,999	164.4

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands)						
Less: Net income attributable to the non-controlling interest shareholders	4,232	0.4	13,945	1.0	3,902	598	0.2
Net income attributable to Cango Inc.'s ordinary shareholders	302,692	27.7	390,914	27.1	3,369,518	516,401	164.2

Comparison of Year Ended December 31, 2020 and Year Ended December 31, 2019

Revenues. Our revenues increased from RMB1,440.1 million in 2019 to RMB2,052.4 million (US\$314.5 million) in 2020, which was primarily due to (i) an increase of RMB613.4 million (US\$94.0 million) in automobile trading income as we started to significantly expand our automobile trading solutions in the third quarter of 2020, and (ii) an increase of RMB35.2 million (US\$5.4 million) in after-market services income from RMB 206.0 million in 2019 to RMB241.2 million (US\$37.0 million) in 2020 primarily because we refined our cross-selling strategy to drive growth. The increase was partially offset by (i) a decrease of RMB22.0 million (US\$3.4 million) in loan facilitation income and other related income from RMB913.8 million in 2019 to RMB891.8 million (US\$136.7 million) in 2020, and (ii) a decrease of RMB14.0 million (US\$2.1 million) in leasing income from RMB300.1 million in 2019 to RMB286.1 million (US\$43.8 million) in 2020.

Operating cost and expenses. Our total operating cost and expenses increased from RMB1,116.8 million in 2019 to RMB1,734.1 million (US\$265.8 million) in 2020, primarily attributable to the increase in cost of revenue. Primarily as a result of the increase in revenues from automobile trading transactions, sales and marketing expenses, general and administrative expenses and research and development expenses each decreased as a percentage of total revenues in the full year of 2020, compared to full year of 2019

- **Cost of revenue.** Our cost of revenue increased from RMB539.3 million in 2019 to RMB1,098.1 million (US\$168.3 million) in 2020, while our cost of revenue as a percentage of our revenues increased from 37.4% to 53.5% during the same period. The increase in percentage relative to our revenue was due to an increase in the cost of vehicle as we started to significantly expand our automobile trading solutions in the third quarter of 2020.
- **Sales and marketing.** Our sales and marketing expenses increased RMB192.8 million in 2019 to RMB195.9 million (US\$30.0 million) in 2020. Our sales and marketing expenses as a percentage of our revenues was 9.5% in 2020, compared to 13.4% in 2019.
- **General and administrative.** Our general and administrative expenses increased from RMB236.6 million in 2019 to RMB265.7 million (US\$40.7 million) in 2020. The increase was primarily due to an increase in average compensation for general and administrative staff. Our general and administrative expenses as a percentage of our revenues was 12.9% in 2020, compared to 16.4% in 2019.

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- *Research and development.* Our research and development expenses increased from RMB57.4 million in 2019 to RMB62.6 million (US\$9.6 million) in 2020. The increase in research and development expenses was primarily due to an increase in average compensation for research and development staff. Our research and development expenses as a percentage of our revenues was 3.0% in 2020, compared to 4.0% in 2019.
- *Net (gain)/loss on risk assurance liabilities.* We recorded net loss on risk assurance liabilities of RMB2.3 million (US\$0.3 million) in 2020.
- *Provision for credit losses.* Our provision for credit losses increased from RMB56.5 million in 2019 to RMB109.6 million (US\$16.8 million) in 2020 due to an increase in the financing receivables we purchased from financial institutions as a result of the increase in the amount of financing transactions for which we have risk assurance obligation.

Interest and investment income. We recognized a net amount of interest and investment income of RMB96.0 million in 2019 from cash management as well as the consolidation of trusts, ABS and ABN that invested in asset-backed securities allocated in 2019. We recognized a net amount of interest and investment income of RMB72.8 million (US\$11.2 million) in 2020 from cash management as well as the consolidation of trusts, ABS and ABN that invested in asset-backed securities allocated in 2020.

Fair value change of equity investment. We recognized a gain of RMB41.6 million in 2019 and RMB3,315.5 million (US\$508.1 million) in 2020, respectively, due to a fair value increase of our equity investment in Li Auto. The Company's investee, Li Auto Inc. ("Li Auto"), has been listed on the Nasdaq Global Select Market since July 30, 2020. As of December 31, 2020, Cango held 39,194,413 Class A ordinary shares of Li Auto.

Income/(loss) from equity method investments. We recognized a loss from equity method investments of RMB0.9 million in 2019 and nil in 2020, respectively.

Interest expense. We recognized interest expense of RMB13.5 million in 2019 and RMB2.8 million (US\$0.4 million) in 2020, respectively. The interest expense decreased upon the maturity of certain asset-backed securities.

Foreign exchange gain/(loss), net. We recognized a net amount of foreign exchange gain of RMB5.1 million in 2019 while we recognized foreign exchange loss of RMB8.8 million (US\$1.4 million) in 2020, primarily due to depreciation of U.S. dollars against RMB, which affected our cash holdings from the additional paid-in capital denominated in U.S. dollars.

Other income, net. Our other income increased from RMB41.3 million in 2019 to RMB49.1 million (US\$7.5 million) in 2020, primarily due to the ADR program commission rebated from Citibank.

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Income tax expenses. Our income tax expenses increased from RMB83.0 million in 2019 to RMB369.9 million (US\$56.7 million) in 2020, primarily due to an increase in our taxable income.

Net income. As a result of the foregoing, our net income increased from RMB404.9 million in 2019 to RMB3,373.4 million (US\$517.0 million) in 2020.

Comparison of Year Ended December 31, 2019 and Year Ended December 31, 2018

Revenues. Our revenues increased from RMB1,091.4 million in 2018 to RMB1,440.1 million in 2019, which was primarily due to (i) an increase of RMB241.0 million in leasing income from RMB59.1 million in 2018 to RMB300.1 million in 2019, which was primarily due to an increase in the amount of finance leases funded by Shanghai Chejia in 2019, and (ii) an increase of RMB105.9 million in after-market services income from RMB100.1 million in 2018 to RMB 206.0 million in 2019 primarily because we refined our cross-selling strategy to drive growth. The increase was partially offset by a decrease of RMB2.5 million in loan facilitation income and other related income from RMB916.3 million in 2018 to RMB913.8 million in 2019, as a result of the change in accounting policy from ASC605 to ASC 606, under which we recognized lower loan facilitation income and other related income than that we would have recognized under ASC 605.

Operating cost and expenses. Our total operating cost and expenses increased from RMB814.7 million in 2018 to RMB1,116.8 million in 2019, primarily attributable to the increase in cost of revenue, sales and marketing expenses, general and administrative expenses as well as research and development expenses.

- *Cost of revenue.* Our cost of revenue increased from RMB430.1 million in 2018 to RMB539.3 million in 2019 while our cost of revenue as a percentage of our revenues decreased from 39.4% to 37.4% during the same period. The decrease in percentage relative to our revenue was due to the successful implementation of a series of cost control initiatives and our increased leverage as a result of our growing economies of scale.
- *Sales and marketing.* Our sales and marketing expenses increased from RMB167.2 million in 2018 to RMB192.8 million in 2019. Our sales and marketing expenses as a percentage of our revenues decreased from 15.3% to 13.4% during the same period. The increase in sales and marketing expenses was in line with the increase in transaction volume. The decrease in percentage relative to our revenue illustrated our commitment to improving our sales and marketing efficiency while continuing to drive revenue growth.
- *General and administrative.* Our general and administrative expenses increased from RMB151.1 million in 2018 to RMB236.6 million in 2019. Our general and administrative expenses as a percentage of our revenues increased from 13.8% to 16.4% during the same period. The increase was primarily due to an increase in our share-based compensation expenses.

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- *Research and development.* Our research and development expenses increased from RMB46.7 million in 2018 to RMB57.4 million in 2019. Our research and development expenses as a percentage of our revenues decreased from 4.3% to 4.0% during the same period. The increase in research and development expenses was primarily due to an increase in average compensation for research and development staff. The decrease in percentage relative to our revenue was due to economies of scale.
- *Net (gain)/loss on risk assurance liabilities.* We recorded net loss on risk assurance liabilities of RMB34.3 million in 2019 due to an increase in fair value of risk assurance of liabilities.
- *Provision for credit losses.* Our provision for credit losses increased from RMB20.0 million in 2018 to RMB56.5 million in 2019 due to (i) an increase in the financing receivables we purchased from financial institutions as a result of the increase in the amount of financing transactions for which we have risk assurance obligation and (ii) the expansion of finance leases funded by Shanghai Chejia in 2019.

Interest and investment income. We recognized a net amount of interest and investment income of RMB61.5 million in 2018 from cash management. We recognized a net amount of interest and investment income of RMB96.0 million in 2019 from cash management as well as the consolidation of trusts, ABS and ABN that invested in asset-backed securities allocated in 2019.

Income/(loss) from equity method investments. We recognized a gain from equity method investments of RMB42.7 million in 2018. We recognized a loss from equity method investments of RMB0.9 million in 2019.

Fair value change of equity investment. We recognized nil in 2018 and a gain of RMB41.6 million in 2019, due to a fair value increase of our equity investment in Li Auto. In the annual report on the Form 20-F for the year ended December 31, 2019, the fair value change of our equity investment in Li Auto of RMB41.6 million was recorded under other income rather than fair value change of equity investment.

Interest expense. We recognized interest expense of RMB19.0 million in 2018. We recognized interest expense of RMB13.5 million in 2019. The interest expense decreased upon the maturity of certain asset-backed securities.

Foreign exchange gain/(loss), net. We recognized a net amount of foreign exchange gain of RMB1.4 million in 2018. We recognized a net amount of foreign exchange gain of RMB5.1 million in 2019, primarily due to appreciation of U.S. dollars against RMB, which affected our cash holdings from the additional paid-in capital denominated in U.S. dollars.

Other income. Our other income increased from RMB32.7 million in 2018 to RMB41.3 million in 2019. In the annual report on the Form 20-F for the year ended December 31, 2019, we recognized other income of RMB82.9 million in 2019, because the fair value change of our equity investment in Li Auto of RMB41.6 million was recorded under other income rather than fair value change of equity investment.

Income tax expenses. Our income tax expenses decreased from RMB89.1 million in 2018 to RMB83.0 million in 2019, primarily due to a decrease in the effective tax rate.

Net income. As a result of the foregoing, our net income increased from RMB306.9 million in 2018 to RMB404.9 million in 2019.

B. Liquidity and Capital Resources

Our primary sources of liquidity have been issuance of equity securities, borrowings from trusts and banks and cash provided by operating activities, which have historically been sufficient to meet our working capital and substantially all of our capital expenditure requirements.

In 2018 and 2019, net cash provided by operating activities was RMB184.8 million and RMB422.9 million, respectively. In 2020, net cash used in operating activities was RMB621.6 million (US\$95.3 million).

As of December 31, 2020, we had cash and cash equivalents of approximately RMB1,426.9 million (US\$218.7 million), as compared to cash and cash equivalents of approximately RMB2,002.3 million as of December 31, 2019.

As of December 31, 2020, we had restricted cash of RMB888.0 million (US\$136.1 million). Restricted cash represents cash deposited with the respective financial institutions, and to a lesser extent, cash held as collateral for short-term borrowings. For arrangements involving risk assurance liabilities, financial institutions make corresponding deductions from our deposit account when borrowers are delinquent in their installment repayments and/or when loans are required to be repurchased by us after a specified delinquency period. Such restricted cash is not available to fund our general liquidity needs.

As of December 31, 2020, we had short-term debts of RMB355.8 million (US\$54.5 million) and long-term debts of RMB2,206.6 million (US\$388.2 million), including long-term debts - current of RMB1,228.8 million (US\$188.3 million) and long-term borrowings – non-current of RMB977.8 million (US\$149.9 million). Our credit agreements do not contain any material debt covenants.

In March 2020, Shanghai Chejia entered into a credit agreement with Bank of Shanghai Huarui Co., Ltd., which allows us to borrow up to RMB100.0 million (US\$15.3 million). The agreement provides for a fixed interest rate of 6.8% per annum and a term of one year. As of December 31, 2020, the outstanding amount under such credit agreement was RMB5.0 million (US\$0.8 million).

In September 2020, Shanghai Chejia entered into a credit agreement with CITIC Bank, which allows us to borrow up to approximately RMB200.0 million (US\$30.7 million) with a term of one year and interest rates to be determined at each drawdown. As of December 31, 2020, the outstanding amount under such credit agreement was approximately RMB200.0 million (US\$30.7 million) in aggregate with interest rates ranging from 3.4% to 4.6%.

In September 2020, Shanghai Chejia entered into a credit agreement with Bank of Shanghai Co., Ltd., which allows us to borrow up to RMB700.0 million (US\$107.3 million) with a fixed interest rate of 5.6% and a term of one year. As of December 31, 2020, the outstanding amount under such credit agreement was RMB120.0 million (US\$18.4 million).

In December 2019, Shanghai Chejia entered into a credit agreement with Bank of China, which allows us to borrow up to RMB100.0 million in aggregate with a fixed interest rate of 4.75% and a term of three years. As of December 31, 2020, the outstanding amount under such credit agreements was RMB64.0 million (US\$9.8 million).

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Shanghai Chejia also obtains debt financing from several other institutions. For further information as to our short-term and long-term debts, see Note 10 to our audited financial statements included elsewhere in this annual report.

In May 2019, Shanghai Chejia completed the issuance of RMB189 million aggregate principal amount of asset-backed notes, or ABNs, and such ABNs were listed on China's Inter-bank Bond Market. In August 2019, Shanghai Chejia completed the issuance of RMB555.88 million aggregate principal amount of asset-backed securities, or ABSs, and such ABSs were listed on the Shanghai Stock Exchange. In November 2019, Shanghai Chejia completed the issuance of RMB665 million aggregate principal amount of ABSs, and such ABSs were listed on the Shenzhen Stock Exchange.

In January 2020, Shanghai Chejia received approval from the Shenzhen Stock Exchange for a shelf offering of up to RMB3 billion of ABSs, under its ABS issuance plan. The underlying assets of the ABSs consist of Shanghai Chejia's finance lease receivables and other related security interests under Shanghai Chejia's lease contracts with its lessees. In March 2020, Shanghai Chejia completed the issuance of RMB964 million (US\$147.7 million) aggregate principal amount of ABSs, and such ABSs were listed on the Shenzhen Stock Exchange. Third parties purchased RMB750 million (US\$114.9 million) senior A tranche ABSs and RMB80 million (US\$12.3 million) senior B tranche ABSs, respectively representing 77.8% and 8.3% of the aggregate principal amount of ABSs issued in March 2020. We purchased all RMB134 million (US\$20.5 million) subordinated tranche ABSs, representing 13.9% of the aggregate principal amount ABSs issued in March 2020.

We believe that our anticipated cash flows from operating activities will be sufficient to meet our anticipated working capital requirements and capital expenditures in the ordinary course of business for the next 12 months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments, or if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. Our obligation to bear credit risk for certain financing transactions we facilitate may also strain our operating cash flow. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Industry and Business —We may need additional capital to pursue business objectives and respond to business opportunities, challenges or unforeseen circumstances, and financing may not be available on terms acceptable to us, or at all."

Our ability to manage our working capital, including receivables and other assets and accrued expenses and other liabilities, may materially affect our financial condition and results of operations.

Although we consolidate the results of our consolidated VIE and its subsidiaries, we only have access to cash balances or future earnings of our consolidated VIE and its subsidiaries through our contractual arrangements with our consolidated VIE. See "Item 4. Information on the Company—C. Organizational Structure." For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see "—Holding Company Structure."

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

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flow Data:				
Net cash provided by/ (used in) operating activities	184,786	422,895	(621,612)	(95,266)
Net cash provided by/ (used in) investing activities	(1,638,647)	(1,198,406)	(493,563)	(75,642)
Net cash provided by (used in) financing activities	4,091,130	730,548	(380,822)	(58,364)
Cash, cash equivalents and restricted cash at beginning of the year	1,132,684	3,880,429	3,846,983	589,576
Cash, cash equivalents and restricted cash at end of the year	3,880,429	3,846,983	2,314,892	354,773

Operating Activities

Net cash used in operating activities was RMB621.6 million (US\$95.3 million) in 2020, primarily due to net income of RMB3,373.4 million (US\$517.0 million), adjusted for (i) fair value change of equity investment of RMB3,315.5 million (US\$508.1 million), (ii) deferred income tax expense of RMB248.2 million (US\$38.0 million), (iii) provision for credit losses of RMB109.6 million (US\$16.8 million), (iv) share-based compensation expense of RMB78.8 million (US\$12.1 million), and (v) changes in working capital. Adjustment for changes in working capital primarily include consisted of (i) an increase in risk assurance liabilities of RMB198.6 million (US\$30.4 million) due to an increase in the amount of financing transactions facilitated for which we have risk assurance obligation, and (ii) an increase in other current and non-current liabilities of RMB52.8 million (US\$8.1 million) due to the prepayments paid by dealers in connection with our automobile trading solutions. Such changes in working capital were partially offset by (i) an increase in other current and non-current assets of RMB695.0 million (US\$106.5 million), which was primarily due to the prepayment paid to OEMs in connection with our automobile trading solutions, as well as the deposit paid to Mybank in connection with our cooperation with it, and (ii) an increase in financing receivables of RMB83.2 million (US\$12.7 million) due to an increase in the financing receivables we purchased upon certain specified events of car buyers' defaults.

Net cash provided by operating activities was RMB422.9 million in 2019, primarily due to net income of RMB404.9 million, adjusted for (i) loss on risk assurance liabilities of RMB34.3 million, (ii) provision for credit losses of RMB56.5 million, (iii) fair value change of equity investment with no readily determinable fair value under measurement alternative of RMB41.6 million, (iv) share-based compensation expense of RMB82.3 million, (v) deferred income tax benefit of RMB9.0 million and (vi) changes in working capital. Adjustment for changes in working capital primarily consisted of an increase in risk assurance liabilities of RMB52.5 million due to an increase in the amount of financing transactions facilitated for which we have risk assurance obligation. Such changes in working capital were partially offset by (i) an increase in other current and non-current assets of RMB56.8 million, which was primarily due to prepayment of such amount, and (ii) an increase in accounts receivable relating to service fees from financial institutions, as under certain arrangements, the payment term was longer.

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Net cash provided by operating activities was RMB184.8 million in 2018, primarily due to net income of RMB306.9 million, adjusted for (i) gain on risk assurance liabilities of RMB0.4 million, (ii) provision for credit losses of RMB20.0 million, (iii) gain from equity method investment of RMB42.7 million, (iv) share-based compensation expense of RMB33.4 million, (v) deferred income tax benefit of RMB32.7 million and (vi) changes in working capital. Adjustment for changes in working capital primarily consisted of an increase in risk assurance liabilities of RMB43.6 million due to an increase in the amount of financing transactions facilitated for which we have risk assurance obligation. Such changes in working capital were partially offset by a decrease in other current and non-current liabilities of RMB168.7 million, which was primarily due to (a) a decrease of RMB59.3 million in payroll payable due to payment of year-end bonus, (b) a decrease of RMB63.1 million in customer advances, (c) a decrease of RMB22.1 million in other tax payables due to payment of such amount.

Investing Activities

Net cash used in investing activities was RMB493.6 million (US\$75.6 million) in 2020, which was primarily attributable to (i) origination of finance lease receivables of RMB2,256.4 million (US\$345.8 million), and (ii) purchase of short-term investments of RMB1,116.8 million (US\$171.2 million) in wealth management products which are primarily invested in various types of debt securities, which was partially offset by (i) repayments of finance lease receivables of RMB1,839.8 million (US\$282.0 million), and (ii) proceeds from redemption of short-term investments of RMB1,020.7 million (US\$156.4 million).

Net cash used in investing activities was RMB1,198.4 million in 2019, which was primarily attributable to (i) purchase of short-term investments of RMB7,613.4 million in wealth management products which are primarily invested in various types of debt securities, (ii) origination of finance lease receivables of RMB2,071.7 million and (iii) purchase of long-term investments of RMB406.3 million, including equity investments without readily determinable fair value and available-for-sale debt securities, which was partially offset by (i) proceeds from redemption of short-term investments of RMB7,295.0 million, and (ii) repayments of finance lease receivables of RMB1,358.8 million.

Net cash used in investing activities was RMB1,638.6 million in 2018, which was primarily attributable to (i) purchase of short-term investments of RMB2,821.4 million in wealth management products which are primarily invested in various types of debt securities, (ii) origination of finance lease receivables of RMB2,024.3 million and (iii) loans provided to related parties and third parties of RMB417.7 million, which was partially offset by (i) proceeds from redemption of short-term investments of RMB2,618.9 million, (ii) principal collections and recoveries on finance lease receivables of RMB1,114.5 million and (iii) proceeds from shareholder loans RMB114.0 million relating to repayment of such loans.

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Financing Activities

Net cash used in financing activities was RMB380.8 million (US\$58.4 million) in 2020, which was primarily attributable to repayment of borrowings of RMB3,416.2 million (US\$523.6 million) and distribution to shareholders of RMB267.2 million (US\$41.0 million), which was partially offset by proceeds from borrowings of RMB3,369.7 million (US\$516.4 million).

Net cash provided by financing activities was RMB730.5 million in 2019, which was primarily attributable to proceeds from borrowings of RMB2,695.4 million, which was partially offset by repayment of borrowings of RMB1,686.5 million and distribution to shareholders of RMB257.1 million.

Net cash provided by financing activities was RMB4,091.1 million in 2018, which was primarily attributable to contribution from shareholders of RMB3,307.3 million, proceeds from our initial public offering of RMB272.1 million and proceeds from borrowings of RMB616.2 million, which was partially offset by repayment of borrowings of RMB73.1 million and distribution to shareholders of RMB27.1 million.

Capital Expenditures

We made capital expenditures of RMB14.4 million, RMB43.0 million and RMB5.4 million (US\$0.8 million) in 2018, 2019 and 2020, respectively. In these periods, our capital expenditures were mainly used for purchases of property and equipment and intangible assets. We will continue to make capital expenditures to meet the expected growth of our business.

Commitments

The following table set forth our indebtedness and contractual obligations as of December 31, 2020:

	Total		Payment due by period			
			Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	RMB	US\$	RMB			
	(in thousands)					
Long-term debts – non current	1,094,258	167,702	62,364	1,031,894	—	—
Operating lease commitments	132,088	20,243	17,380	26,085	26,533	62,090
Total	1,226,346	187,945	79,744	1,057,979	26,533	62,090

Holding Company Structure

Cango Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiary, consolidated VIE and its subsidiaries in China. As a result, Cango Inc.'s ability to pay dividends depends upon dividends paid by our PRC subsidiary. If our existing PRC subsidiary 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 subsidiary in China is 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 subsidiary, our consolidated VIE and its 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 subsidiary 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 consolidated VIE and its subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at their 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 subsidiary has not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

Inflation

Since inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for 2018, 2019 and 2020 were increases of 2.1%, 2.9% and 2.5%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

Recent Accounting Pronouncements

Please see Note 2 to our consolidated financial statements included elsewhere in this annual report.

C. Research and Development

We have focused on and will continue to invest in our technology system, which supports all key aspects of our platform and is designed to optimize for scalability and flexibility.

Our research and development expenses were RMB46.7 million, RMB57.4 million and RMB62.6 million (US\$9.6 million) in 2018, 2019 and 2020, respectively.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2020 that are reasonably likely to have a material effect on our total net revenues, income, profitability, liquidity or capital reserves, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off - Balance Sheet Arrangements

We have entered into several arrangements with financial institutions that provide funding directly to car buyers for financing transactions we facilitate. Under our arrangements with certain financial institutions, we are obligated to purchase the relevant financing receivables upon certain specified events of default by car buyers. As of December 31, 2020, risk assurance liabilities related to such arrangement were RMB460.8 million (US\$70.6 million). As of December 31, 2020, the maximum potential undiscounted future payment we would be required to make was RMB14,540.2 million (US\$2,228.4 million).

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F. Tabular Disclosure of Contractual Obligations

The following table set forth our indebtedness and contractual obligations as of December 31, 2020:

	Total		Payment due by period			
			Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	RMB	US\$	(in thousands)		RMB	
Long-term debts – non-current	1,094,258	167,702	62,364	1,031,894	—	—
Operating lease commitments	132,088	20,243	17,380	26,085	26,533	62,090
Total	1,226,346	187,945	79,744	1,057,979	26,533	62,090

G. Safe Harbor

See “Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of December 31, 2020.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Xiaojun Zhang	49	Co-founder and chairman
Jiayuan Lin	52	Co-founder, director and chief executive officer
Langlang Zhou	40	Director
Yongyi Zhang	48	Chief financial officer and director
Xiaoyu Liu	38	Director
Zhipeng Song	36	Director
Chi Ming Lee	68	Independent director
Dongsheng Zhou	53	Independent director
Rong Liu	72	Independent director

Xiaojun Zhang is our co-founder and has served as our chairman since 2014. Mr. Zhang has also served as a chairman and general manager of Shanghai Chejia since 2016. Prior to co-founding our company, Mr. Zhang served as a director and general manager of SAIC-GMAC Automotive Finance Co., Ltd. from 2004 to 2013. From 1999 to 2004, Mr. Zhang served as a deputy general manager of Shanghai Automobile Group Finance Company. From 1992 and 1998, Mr. Zhang served as a financial supervisor of People’s Bank of China, Shanghai Branch. Mr. Zhang received a bachelor’s degree in finance from Shanghai University of Finance and Economics in 1992, a master’s degree in business administration from Peking University in 2003 and completed China Senior Executive Program at Harvard Business School in 2018, thereby attaining alumni status.

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Jiayuan Lin is our co-founder and has served as our director and chief executive officer since 2010. Prior to co-founding our company, Mr. Lin served as an assistant general manager of Shanghai Automobile Group Finance Company from 2007 to 2010. From 2003 to 2007, Mr. Lin served as a director of the sales department of SAIC-GMAC Automotive Finance Co., Ltd. From 1997 to 2003, Mr. Lin worked in SAIC General Motors Corporation Limited as a manager of tax and insurance in the finance department and a manager of finance support in the marketing department. From 1991 to 1997, Mr. Lin worked in the Pudong branch of Bank of China as a staff member in the finance department, deputy manager of the audit division and deputy manager of the credit division. Mr. Lin received a bachelor's degree in economics, with specialization in investment management, from Shanghai University of Finance and Economics in 1991.

Langlang Zhou has served as our director since 2017. Mr. Zhou is a managing director of Warburg Pincus LLC and has been with the firm since 2005. Mr. Zhou is currently a director of China Huarong Asset Management Co., Ltd., Hwabao WP Fund Management Co., Ltd. and Wacai Holdings Limited. Mr. Zhou served as an analyst of the investment banking division of Credit Suisse First Boston from 2003 to 2004 and an associate of the investment banking division of Citibank from 2004 to 2005. Mr. Zhou obtained a bachelor's degree in business and a bachelor's degree in electrical engineering from the University of Western Ontario in 2002.

Yongyi Zhang has served as our chief financial officer since 2018 and director since 2018. Prior to joining our company, Mr. Zhang served as an executive director of Zhongde Securities Co., Ltd. from 2010 to 2018. From 2001 to 2010, Mr. Zhang served as a senior manager of China Galaxy Securities Co., Ltd. From 1997 to 2001, Mr. Zhang served as a deputy manager of Shanghai Stock Exchange. From 1995 to 1997, Mr. Zhang served as an auditor of Arthur Anderson (Shanghai Office). Mr. Zhang received a bachelor's degree in international accounting from Shanghai University of Finance and Economics in 1995.

Xiaoyu Liu has served as our director since 2018. Mr. Liu joined Didi Chuxing in 2015 and currently serves as the General Manager in the Fintech Department. Mr. Liu has over ten years of working experience in the finance and investment industry including with The Carlyle Group, Kaichen Group, UniCredit and KPMG. Mr. Liu received a bachelor's degree in biotechnology from Tsinghua University in 2005 and an MBA from University of Pennsylvania in 2012.

Zhipeng Song has served as a director of our company since 2018. Mr. Song has also served as a vice president of Shanghai Chejia since 2016. From 2014 to 2015, Mr. Song served as an assistant general manager of our company. From 2012 to 2014, he served a regional manager of Anji Leasing Co., Ltd. From 2010 to 2012, he served as an account manager of SAIC-GMAC Automotive Finance Co., Ltd. Mr. Song received a bachelor's degree in finance from Shanghai University in 2007 and a master's degree in finance and management from Loughborough University in 2008 and a master's degree in finance from University of St. Andrews in 2009.

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Chi Ming Lee has served as our independent director since July 25, 2018. Mr. Lee also has served as an independent non-executive director of China Minsheng DIT Group Limited since 2014, and of Huatai Securities Co., Ltd. since 2015. Mr. Lee has been the managing partner of Benington Capital Limited since October 2014. From 1989 to 2014, Mr. Lee served as the senior manager/director of Licensing department, director of Corporate Planning, and director of Finance and Administration of the Securities and Futures Commission of Hong Kong. From 1976 to 1989, Mr. Lee served as the assistant assessor and then the assessor at Inland Revenue Department of the Government of Hong Kong. Mr. Lee obtained his higher diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1976, a bachelor's degree in law from the University of London in 1988, and a master's degree in business administration from the University of Hong Kong in 1993. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Dongsheng Zhou has served as our director since July 25, 2018. Dr. Zhou is a professor of marketing and chair of the marketing department at China Europe International Business School, where he has worked since 2002. Since 2006, Dr. Zhou has served as the academic co-chair of SEPC, a joint executive training program with Harvard Business School and the School of Economics and Management at Tsinghua University. From 2007 to 2012, Dr. Zhou served as the associate dean in charge of the alumni relationships of China Europe International Business School. From 1997 to 2002, Dr. Zhou served as an assistant professor in the department of marketing and on the business faculty at the City University of Hong Kong. Dr. Zhou received a bachelor's degree in science from the University of Science and Technology of China in 1990 and a doctor of philosophy degree from the faculty of commerce and business administration at the University of British Columbia in 1997.

Rong Liu has served as our director since July 2019. Mr. Liu has decades of experience in the automotive industry. He served as a deputy chief accountant and executive director of the finance department of SAIC Group Co., Ltd. from December 2004 to May 2013. From March 2004 to December 2004, he served as a deputy chief accountant and manager of the finance department of Shanghai Automotive Industry Corporation (Group) Corp. From April 1990 to March 2004, he served as a manager assistant and deputy manager of Shanghai Automotive Industry Corporation (Group) Corp. He currently serves as an independent director at Kehua Holdings Co., Ltd., Kuangda Technology Group Co., Ltd., Shanghai Jialeng Songzhi Automobile Air Conditioning Co., Ltd. and Shanghai Jingzhi Industrial Co., Ltd. He also serves as a supervisor at Yangzhou Dongsheng Auto Parts Co., Ltd. In 1999, Mr. Liu completed a graduate program in international economy at China Eastern Normal University.

The business address for all of our executive officers and directors is 8F, New Bund Oriental Plaza II, 556 West Haiyang Road, Pudong New Area, Shanghai 200124, People's Republic of China.

B. Compensation

Compensation

In 2020, we and our subsidiaries and consolidated VIE paid aggregate cash compensation of approximately RMB26.5 million (US\$4.1 million) to our directors and executive officers as a group. We did not pay any other cash compensation or benefits in kind 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 consolidated VIE 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 housing funds. Our board of directors may determine compensation to be paid to the directors and the executive officers. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors and the executive officers.

For information regarding share awards granted to our directors and executive officers, see “—Share Incentive Plan.”

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, willful misconduct or gross negligence to our detriment, or serious breach of duty of loyalty to us. We may also terminate an executive officer's employment without cause upon three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

Each executive officer has agreed to hold, both during and within two years after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our business partners, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer 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 executive officer has agreed not to (i) approach financial institutions, dealers or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

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We intend to enter into indemnification agreements with each of our directors and executive officers. Under these agreements, we may agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

Share Incentive Plan

On May 25, 2018, we adopted the Share Incentive Plan 2018, or the share incentive plan, which allows us to grant options, restricted shares, restricted share units and other share-based awards to our employees, directors and consultants. The maximum number of ordinary shares that may be subject to equity awards pursuant to the share incentive plan is 27,845,526 initially. Additional ordinary shares may be reserved for issuance of equity awards as determined by our board of directors.

Administration

The share incentive plan is jointly administered by Mr. Xiaojun Zhang, our co-founder and chairman, and Mr. Jiayuan Lin, our co-founder, director and chief executive officer. The administrators will determine the provisions and terms and conditions of each equity award.

Change in Control

In the event of a change in control, the administrators may provide for termination of all equity awards outstanding at a specific time in the future, purchase of equity awards from holders, replacement of equity awards, payment of awards in cash or combination of the foregoing.

Term

Unless terminated earlier, the share incentive plan will continue in effect for a term of ten years from the date of its adoption.

Award Agreements

Generally, equity awards granted under the share incentive plan are evidenced by an award agreement providing for the number of ordinary shares subject to the award, and the terms and conditions of the award, which must be consistent with the share incentive plan.

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Vesting Schedule

The vesting schedule of each equity award granted under the share incentive plan will be set forth in the award agreement for such equity award.

Amendment and Termination

The board of directors may at any time amend or terminate the share incentive plan, subject to certain exceptions.

Granted Options

In May 2018, we granted 5,569,105 options to purchase our ordinary shares to certain eligible employees. In February 2019, we granted another 5,569,105 options. In October 2020, we granted 8,353,658 options. We recognized RMB78.8 million (US\$12.1 million) of share-based compensation expenses in 2020. Certain options previously granted were subsequently forfeited pursuant to the terms of the share incentive plan. As of December 31, 2020, 18,510,727 options remained outstanding.

The table below summarizes, as of March 31, 2021, the options we have granted to our directors and executive officers.

Name	Position	Ordinary Shares Underlying Option Awards	Option Exercise Price (US\$)**	Grant Date	Option Expiration Date
Xiaojun Zhang	Chairman		1.7951	May 25, 2018	May 24, 2028
		5,233,862	1.7951	February 15, 2019	February 14, 2029
			1.7951	October 15, 2020	October 14, 2030
Jiayuan Lin	Chief executive officer and director		1.7951	May 25, 2018	May 24, 2028
		5,331,362	1.7951	February 15, 2019	February 14, 2029
			1.7951	October 15, 2020	October 14, 2030
Yongyi Zhang	Chief financial officer and director		1.7951	May 25, 2018	May 24, 2028
		*	1.7951	February 15, 2019	February 14, 2029
			1.7951	October 15, 2020	October 14, 2030
Zhipeng Song	Director		1.7951	May 25, 2018	May 24, 2028
		*	1.7951	February 15, 2019	February 14, 2029
			1.7951	October 15, 2020	October 14, 2030

* Less than 1% of our outstanding shares, assuming conversion of our preferred shares into ordinary shares.

** In March 2021, we adjusted the option exercise price to US\$1.2951 per share due to the cash dividend paid in April 2021.

Option Exercise Price

The option exercise price of US\$1.7951 per share was agreed among us and our Series A shareholders when they invested in us in March 2017. The joint investment agreement, dated March 21, 2017, relating to Shanghai Cango required such investors to pay a purchase price of RMB13.41, or the Series A-1 Purchase Price, per registered capital of RMB1.00. The same agreement permits Shanghai Cango to grant equity awards to employees at an exercise price equivalent to the Series A-1 Purchase Price, to be adjusted to account for share splits and other changes in capital structure. The Series A-1 Purchase Price was determined through arms-length negotiation with investors and represented the fair market value of the registered capital of Shanghai Cango as of March 21, 2017. Having taken into account of our Offshore Restructuring, which resulted in Cango Inc. becoming our ultimate holding company, we determined that the Series A-1 Purchase Price be equivalent to US\$1.7951 per share for the purpose of setting the exercise price of our stock options. We believe US\$1.7951 per share represented the fair market value of ordinary shares of Cango Inc. as of March 21, 2017 on a retroactive basis. In March 2021, we adjusted the option exercise price to US\$1.2951 per share due to the cash dividend paid in April 2021.

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We estimate the fair value of the options on the respective grant dates using the binomial option pricing model with assistance from an independent valuation firm. As of December 31, 2020, total unrecognized compensation expense relating to unvested share options was RMB104.38 million (US\$16 million). The expense for the first batch granted in May 2018 is expected to be recognized over a weighted-average period of 0.92 years, the expense for the second batch granted in February 2019 is expected to be recognized over a weighted-average period of 1.18 years, the expense for the third batch granted in October 2020 is expected to be recognized over a weighted-average period of 1.74 years.

C. Board Practices

Our board of directors consisted of nine directors as of December 31, 2020. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract or any proposed contract or arrangement in which he is interested, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered, provided (a) such director has declared the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first considered if he knows his interest then exists, or in any other case at the first meeting of the board after he knows he is or has become so interested, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. The directors may exercise all the powers of the company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- conducting and managing the business of our company;

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- representing our company in contracts and deals;
- appointing attorneys for our company;
- select senior management such as managing directors and executive directors;
- providing employee benefits and pension;
- managing our company's finance and bank accounts;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- exercising any other powers conferred by the shareholders meetings or under our memorandum and articles of association.

Terms of Directors and Executive Officers

Our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders, pursuant to our third amended and restated memorandum and articles of association, which became effective immediately prior to the completion of our initial public offering. Each of our directors will hold office until his or her successor takes office or until his or her earlier death, resignation or removal or the expiration of his or her term as provided in the written agreement with our company, if any. A director will cease to be a director if, among other things, the director (i) dies, or becomes bankrupt or makes any arrangement or composition with his creditors; (ii) is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, or (iv) without special leave of absence from our board, is absent from six consecutive board meetings and our directors resolve that his office be vacated. Our officers are elected by and serve at the discretion of the board of directors.

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the committees. Each committee's members and functions are described below.

Audit Committee

Our audit committee consists of Chi Ming Lee, Dongsheng Zhou and Rong Liu. Chi Ming Lee is the chairperson of our audit committee. Chi Ming Lee satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Each of Chi Ming Lee, Dongsheng Zhou and Rong Liu satisfies the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and meets the criteria for independence set forth in Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Our audit committee consists solely of independent directors.

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The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is responsible for, among other things:

- selecting the independent auditor;
- pre-approving auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor's report describing the auditing firm's internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors and all relationships between the independent auditor and our company;
- setting clear hiring policies for employees and former employees of the independent auditors;
- reviewing with the independent auditor any audit problems or difficulties and management's response;
- reviewing and, if material, approving all related party transactions on an ongoing basis;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;
- discussing policies with respect to risk assessment and risk management with management, internal auditors and the independent auditor;
- timely reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;

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- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of Xiaojun Zhang, Jiayuan Lin and Dongsheng Zhou. Xiaojun Zhang is the chairperson of our compensation committee. Dongsheng Zhou satisfies the requirements for an “independent director” within the meaning of Section 303A of the NYSE Listed Company Manual.

Our compensation committee is responsible for, among other things:

- reviewing, evaluating and, if necessary, revising our overall compensation policies;
- reviewing and evaluating the performance of our directors and senior officers and determining the compensation of our senior officers;
- reviewing and approving our senior officers’ employment agreements with us;
- setting performance targets for our senior officers with respect to our incentive—compensation plan and equity-based compensation plans;
- administering our equity-based compensation plans in accordance with the terms thereof; and such other matters that are specifically delegated to the remuneration committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Jiayuan Lin, Xiaojun Zhang and Dongsheng Zhou. Jiayuan Lin is the chairperson of our nominating and corporate governance committee. Dongsheng Zhou satisfies the requirements for an “independent director” within the meaning of Section 303A of the NYSE Listed Company Manual. The nominating and corporate governance committee will assist the board of directors 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 will be responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;

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- 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
- 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.

D. Employees

As of December 31, 2018, 2019 and 2020, we had a total of 3,327, 3,189 and 3,009 employees, respectively. The following table sets forth the breakdown of our employees as of December 31, 2020 by function:

Function	Number of Employees	% of Total
Sales and marketing	2,053	68.2
Operations	364	12.1
Risk management	233	7.7
General administration	215	7.2
Research and development	144	4.8
Total	<u>3,009</u>	<u>100.0</u>

As of December 31, 2020, 935 of our employees were based in Shanghai. The rest of our employees were based in 20 other cities across China.

We believe we offer our employees competitive compensation packages and a dynamic work environment that encourages initiative and is based on merit. As a result, we have generally been able to attract and retain qualified personnel and maintain a stable core management team. We plan to hire additional experienced and talented employees in areas such as big data analytics, marketing and operations, risk management and sales as we expand our business.

As required by PRC regulations, we participate in various government statutory employee benefit plans, including social insurance, namely pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and housing funds. We are required under PRC 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 regulations from time to time. In addition, we purchased additional commercial health insurance to increase insurance coverage of our employees. We enter into standard labor, confidentiality and non-compete agreements with our employees. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

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We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

E. Share Ownership

The following table sets forth information as of the date of this annual report with respect to the beneficial ownership of our ordinary shares by:

- each of our directors and executive officers; and
- each person known to us to own beneficially 5.0% or more of our ordinary shares.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to, or the power to receive the economic benefit of ownership of, the securities. 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, including through the exercise of any option or other right or the conversion of any other security.

As of March 31, 2021, the total number of ordinary shares outstanding is 291,908,888, comprising 216,930,211 Class A ordinary shares and 74,978,677 Class B ordinary shares.

	Ordinary Shares Beneficially Owned		Percentage of total outstanding ordinary shares on an as-converted basis	Percentage of aggregate voting power**
	Class A ordinary shares	Class B ordinary shares		
Directors and Executive Officers:*				
Xiaojun Zhang ⁽¹⁾	***	38,275,787	13.7	44.7
Jiayuan Lin ⁽²⁾	3,286,367	36,702,890	13.6	42.9
Langlang Zhou	—	—	—	—
Yongyi Zhang	***	—	***	***
Xiaoyu Liu	—	—	—	—
Zhipeng Song	***	—	***	***
Chi Ming Lee	—	—	—	—
Dongsheng Zhou	—	—	—	—
Rong Liu	—	—	—	—
Directors and Executive Officers as a Group	5,803,543	74,978,677	27.2	87.5
Principal Shareholders:				
Lin Entities ⁽³⁾	3,286,367	36,702,890	13.6	42.9
WP Fintech ⁽⁴⁾	53,431,124	—	18.3	3.1
Eagle Central Holding Limited ⁽⁵⁾	***	38,275,787	13.7	44.7
Tencent Mobility Limited ⁽⁶⁾	31,603,196	—	10.8	1.8
Didi Chuxing ⁽⁷⁾	28,376,116	—	9.7	1.7
Taikang Offshore Entities ⁽⁸⁾	16,217,006	—	5.6	0.9

* The business address for our directors and executive officers is 8F, New Bund Oriental Plaza II, 556 West Haiyang Road, Pudong New Area, Shanghai 200124, 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 and Class B ordinary shares as a single class. In respect of all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 20 votes, voting together as one class. 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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*** Less than 1% of our total outstanding shares.

- (1) Represents (i) 38,275,787 Class B ordinary shares that are held by Eagle Central Holding Limited, or Eagle Central, and (ii) a number of Class A ordinary shares that Mr. Xiaojun Zhang has the right to acquire upon exercise of the options within 60 days. Eagle Central is a limited liability company established in the British Virgin Islands that is controlled by Mr. Xiaojun Zhang. Eagle Central is further described in footnote 5 below. In addition, Eagle Central is a limited partner with 50.0% of partnership interest in Huaiyuan L.P. Huaiyuan L.P. is further described in footnote 10 below.
- (2) Represents (i) 1 Class A ordinary share that is held by Medway Brilliant Holding Limited, or Medway Brilliant, (ii) 36,702,890 Class B ordinary shares that are held by Traveler Enterprise Limited, or Traveler Enterprise, (iii) 1,200,000 Class A ordinary shares represented by ADSs that are beneficially owned by Traveler Enterprise, and (iv) a number of Class A ordinary shares that Mr. Jiayuan Lin has the right to acquire upon exercise of the options within 60 days. Medway Brilliant is a limited liability company established in the British Virgin Islands that is wholly owned by Mr. Jiayuan Lin. Traveler Enterprise is a limited liability company established in the British Virgin Islands. Mr. Jiayuan Lin is the beneficial owner of the shares held by Medway Brilliant and Traveler Enterprise in our company. Medway Brilliant and Traveler Enterprise are further described in footnote 3 below. In addition, Medway Brilliant is a limited partner with 50.0% of partnership interest in Huaiyuan L.P. Huaiyuan L.P. is further described in footnote 10 below.
- (3) Represents (i) 1 Class A ordinary share that is held by Medway Brilliant, (ii) 36,702,890 Class B ordinary shares that are held by Traveler Enterprise, and (iii) 1,200,000 Class A ordinary shares represented by ADSs that are beneficially owned by Traveler Enterprise. Medway Brilliant is a limited liability company established in the British Virgin Islands that is wholly owned by Mr. Jiayuan Lin. The registered address of Medway Brilliant is the offices of Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands. Traveler Enterprise is a limited liability company established in the British Virgin Islands. Traveler Enterprise is controlled by Traveler Trust, a trust established under the laws of Guernsey. Mr. Jiayuan Lin is the settlor of Traveler Trust, and Mr. Lin and his family members are the trust's beneficiaries. Under the terms of this trust, Mr. Lin has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares held by Traveler Enterprise in our company. The registered address of Traveler Enterprise is Ritter House, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands.
- (4) Represents 53,431,124 Class A ordinary shares held by Warburg Pincus Cango Fintech Investment Company Limited, a British Virgin Islands business company ("WP Fintech"). Information regarding beneficial ownership is reported as of January 31, 2020, based on the information contained in the Schedule 13G filed by WP Fintech with SEC on February 10, 2020. The direct parents of WP Fintech are (i) Warburg Pincus Private Equity XII, L.P., a Delaware limited partnership ("WP XII"), (ii) Warburg Pincus Private Equity XII-B, L.P., a Delaware limited partnership ("WP XII-B"), (iii) Warburg Pincus Private Equity XII-D, L.P., a Delaware limited partnership ("WP XII-D"), (iv) Warburg Pincus Private Equity XII-E, L.P., a Delaware limited partnership ("WP XII-E"), (v) WP XII Partners, L.P., a Delaware limited partnership ("WP XII Partners"), (vi) Warburg Pincus XII Partners, L.P., a Delaware limited partnership ("Warburg Pincus XII Partners" and, together with WP XII, WP XII-B, WP XII-D, WP XII-E and WP XII Partners, the "WP XII Funds"), (vii) Warburg Pincus China (Cayman), L.P., a Cayman Islands limited partnership ("WPC Cayman"), and (viii) Warburg Pincus China Partners (Cayman), L.P., a Cayman Islands limited partnership ("Warburg Pincus China Cayman Partners" and, together with WPC Cayman, the "WPC Cayman Funds"). Warburg Pincus XII, L.P., a Delaware limited partnership ("WP XII GP"), is the general partner of the WP XII Funds. WP Global LLC, a Delaware limited liability company ("WP Global"), is the general partner of WP XII GP. Warburg Pincus Partners II, L.P., a Delaware limited partnership ("WPP II"), is the managing member of WP Global. Warburg Pincus Partners GP LLC, a Delaware limited liability company ("WPP GP"), is the general partner of WPP II. Warburg Pincus & Co., a New York general partnership ("WP"), is the managing member of WPP GP. Warburg Pincus (Cayman) China GP, L.P., a Cayman Islands limited partnership ("WPC Cayman GP"), is the general partner of the WPC Cayman Funds. Warburg Pincus (Cayman) China GP LLC, a Delaware limited liability company ("WPC Cayman GP LLC"), is the general partner of WPC Cayman GP. Warburg Pincus Partners II (Cayman), L.P., a Cayman Islands exempted limited partnership ("WPP II Cayman"), is the managing member of WPC Cayman GP LLC. Warburg Pincus (Bermuda) Private Equity GP Ltd., a Bermuda exempted company ("WP Bermuda"), is the general partner of WPP II Cayman. Investment and voting decisions with respect to the Class A ordinary shares held by the Warburg Pincus entities are made by a committee comprised of three or more individuals and all members of such committee disclaim beneficial ownership of the shares held by the Warburg Pincus entities. The address of the Warburg Pincus entities is 450 Lexington Avenue, New York, New York 10017, U.S.A.
- (5) Eagle Central is a limited liability company established in the British Virgin Islands that is controlled by Mr. Xiaojun Zhang. The registered address of Eagle Central is the offices of Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola VG1110, British Virgin Islands.
- (6) Represents 31,603,196 Class A ordinary shares held by Tencent Mobility Limited. Information regarding beneficial ownership is based on (i) the information contained in the Schedule 13G reported as of December 31, 2018 and filed by Tencent Mobility Limited with SEC on February 1, 2019, and (ii) the fact that Tencent Mobility Limited cancelled and surrendered one Class A ordinary share in May 2020. Tencent Mobility Limited is a limited liability company established in Hong Kong. Tencent Mobility Limited is wholly owned by Tencent Holdings Limited, a public company listed on the Hong Kong Stock Exchange. The registered address of Tencent Mobility Limited is 29/F, Three Pacific Place, No.1 Queen's Road East, Wanchai, Hong Kong.

- (7) Represents (i) 4,740,480 Class A ordinary shares held by Links Advance Holdings Limited and (ii) 23,635,636 Class A ordinary shares held by DiDi Sunshine Investments L.P. Information regarding beneficial ownership is reported as of December 31, 2019, based on the information contained in the Schedule 13G filed by Didi Chuxing with SEC on February 13, 2020. Links Advance Holdings Limited is controlled by Didi Chuxing. DiDi Sunshine Investments L.P. is an exempted limited partnership organized in the Cayman Islands. Its general partner is a wholly-owned subsidiary of Didi Chuxing. The general partner exercises the voting rights with respect to the shares held by the limited partnership. The general partner disclaims beneficial ownership of our shares except to the extent of its pecuniary interest in the limited partnership. According to the information contained in the Schedule 13G filed by Galactic Gain Limited with SEC on February 13, 2020, Galactic Gain Limited is a limited partner of DiDi Sunshine Investments L.P. and indirectly holds the 23,635,636 Class A ordinary shares. Galactic Gain Limited is an exempted company incorporated under the laws of the Cayman Islands, which is wholly owned by Boyu Capital Fund III, L.P. Boyu Capital Fund III, L.P. is a limited partnership organized under the laws of the Cayman Islands, of which Boyu Capital General Partner III, L.P. is the general partner. Boyu Capital General Partner III, L.P. is a limited partnership organized under the laws of the Cayman Islands, of which Boyu Capital General Partner III, Ltd. is the general partner. Boyu Capital General Partner III, Ltd. is an exempted company incorporated under the laws of the Cayman Islands, which is wholly owned by Boyu Capital Group Holdings Ltd. Boyu Capital Group Holdings Ltd. is an exempted company incorporated under the laws of the Cayman Islands, of which XYXY Holdings Ltd. is the controlling shareholder. XYXY Holdings Ltd. is a company incorporated under the laws of the British Virgin Islands, which is wholly owned by Xiaomeng Tong. The registered address of Galactic Gain Limited is at the office of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (8) Represents (i) 8,108,503 Class A ordinary shares held by Magic Spark Inc., a limited liability company established in the Cayman Islands, and (ii) 8,108,503 Class A ordinary shares held by TK Autolink Inc., a limited liability company established in the Cayman Islands. Information regarding beneficial ownership is reported as of December 31, 2019, based on the information contained in the Schedule 13G filed by Taikang Offshore Entities with SEC on February 12, 2020. Magic Spark Inc. is wholly owned by Taikang Life Insurance Co., Ltd., which in turn is wholly owned by Taikang Insurance Group Inc. TK Autolink Inc. is indirectly controlled by Shandong State-controlled Taikang Phase I Industrial Development Fund Partnership Enterprise (Limited Partnership) (“Shandong Fund”). Beijing Taikang Investment Co., Ltd. is one of the two general partners of Shandong Fund. Beijing Taikang Investment Co., Ltd. is indirectly controlled by Taikang Insurance Group Inc. Each of Taikang Life Insurance Co., Ltd. and Taikang Insurance Group Inc. is an insurance company established in the PRC. The registered address of Magic Spark Inc. is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands. The registered address of TK Autolink Inc. is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1 – 1002, Cayman Islands.

In May 2018, our co-founders Mr. Xiaojun Zhang and Mr. Jiayuan Lin entered into a voting agreement, which was amended and restated in June 2019. The amended and restated voting agreement provides that they shall reach a consensus before exercising their voting rights with respect to our shares. As of March 31, 2021, the co-founders collectively exercised 87.6% of the aggregate voting power of our issued and outstanding share capital.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees — E. Share Ownership.”

B. Related Party Transactions

Transactions with Shanghai Chejia

We provided automotive financing facilitation services to Shanghai Chejia. Since the completion of the Acquisition at the end of September 2018, Shanghai Chejia has been our wholly-owned subsidiary and has been consolidated with our results of operations.

We recognized RMB14.9 million of revenues relating to service fees for automotive financing facilitation services provided to Shanghai Chejia in 2018.

We recognized interest income of RMB2.2 million, nil and nil relating to interest due from Shanghai Chejia in 2018, 2019 and 2020, respectively.

Transactions with Other Equity Method Investees

We own 46% of equity interest in Hebei Jiahui Consultation Service Co., Ltd., or Hebei Jiahui, and we own 49% of equity interest in Liaoning Jun’an Automobile Consultation Service Co., Ltd., or Liaoning Jun’an. Hebei Jiahui and Liaoning Jun’an have ceased business operations, and such companies’ assets were liquidated in April 2019 and July 2018, respectively.

Contractual Arrangements with Our Consolidated VIE and Its Shareholders

PRC laws and regulations currently restrict foreign ownership and investment in VATS in China. As we plan to engage in VATS businesses, including value-added online services for platform participants, in the future, we currently conduct our operations mainly through our consolidated VIE and its subsidiaries. We effectively control the consolidated VIE through a series of contractual arrangements with the consolidated VIE, its shareholders and Can Gu Long. As a result, we operate our relevant business through contractual arrangements among Can Gu Long, our wholly-owned PRC subsidiary, Shanghai Cango, our consolidated VIE, and its shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders.”

Transactions with Shareholders of Our Consolidated VIE

Mr. Jiayuan Lin, our co-founder, chief executive officer and director, and Shanghai Wangjin Investment Management Co., Ltd., or Shanghai Wangjin, which is owned by Mr. Xiaojun Zhang, our co-founder and chairman, are both shareholders of our consolidated VIE.

Mr. Jiayuan Lin and Shanghai Wangjin have borrowed from us to purchase equity interest from other shareholders of our consolidated VIE who wished to sell such equity interest. Such borrowings bore floating rates of interest, and such borrowings were fully repaid in May 2018.

Amounts due to Jiayuan Lin were nil, nil and nil as of December 31, 2018, 2019 and 2020, respectively. We recognized interest income of RMB0.8 million, nil and nil relating to interest due from Mr. Jiayuan Lin in 2018, 2019 and 2020, respectively.

Amounts due to Shanghai Wangjin were nil, nil and nil as of December 31, 2018, 2019 and 2020, respectively. We recognized interest income of RMB0.4 million, nil and nil relating to interest due from Shanghai Wangjin in 2018, 2019 and 2020, respectively.

Strategic Cooperation with Didi Chuxing

We have established a strategic partnership with Didi Chuxing, a leading ride-sharing technology company. Through a series of equity investments in the first half of 2018, Didi Chuxing has become a strategic shareholder of our company, and as of December 31, 2020, it beneficially owned 28,376,116 Class A ordinary shares, representing 9.7% of our issued and outstanding shares. For further information, see “Principal Shareholders.”

On July 9, 2018, we and Didi Chuxing entered into a business cooperation agreement, which provides the framework for our strategic partnership. Pursuant to the agreement, the two parties grant each other a priority right with respect to cooperation in the area of automotive financing services, provided that third parties do not offer more favorable terms. In addition, we and Didi Chuxing agree to develop comprehensive solutions that are oriented towards users of Didi Chuxing’s platform in areas such as vehicle sourcing and automotive financing. The two parties will also explore cooperation in certain other areas such as insurance facilitation, GPS installations and big data analysis. The specific terms of cooperation will be provided under separate agreements that we and Didi Chuxing enter into from time to time. We are preparing to launch cooperation with Didi Chuxing in additional cities to capitalize on its large and rapidly expanding fleet.

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We served 509 licensed Didi Chuxing drivers in 2020 by providing them with comprehensive solutions including automotive financing and insurance facilitation. In addition, Didi Chuxing's users and drivers who plan to purchase cars can access our services through Didi Chuxing's mobile app. The arrangement offers us new opportunities to facilitate car sales and automotive financing transactions.

Transaction with an Affiliate of WP Fintech

In connection with the Acquisition, we acquired Express Group Development Limited, an acquisition vehicle affiliated with WP Fintech, which held a contractual right to purchase 25% equity interest in Shanghai Chejia as its only material asset for a nominal price of one Hong Kong dollar in May 2018. Express Group Development Limited currently holds 38.75% equity interest in Shanghai Chejia. For further information with respect to the Acquisition, see "Item 4. Information on the Company—C. Organizational Structure."

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising from 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.

Dividend Policy

On March 11, 2021, our board of directors approved a special cash dividend of US\$0.50 per ordinary share (or US\$1.00 per American depository share) based on our outstanding ordinary shares. This special cash dividend aggregated approximately US\$151.4 million, of which US\$147.3 million was paid on April 8, 2021 (Eastern Time) to shareholders of record as of the close of trading on March 22, 2021 (Eastern Time). On April 22, 2020, our board of directors approved a special dividend of US\$0.125 per ordinary share (or US\$0.25 per American depository share) based on our outstanding ordinary shares. This special cash dividend aggregated approximately US\$37.9 million, of which US\$37.8 million was paid on May 18, 2020 (Eastern Time) to shareholders of record as of the close of trading on May 4, 2020 (Eastern Time). On April 22, 2019, our board of directors approved a special cash dividend of US\$0.125 per ordinary share (or US\$0.25 per American depository share) based on our outstanding ordinary shares. This special cash dividend aggregated approximately US\$37.9 million, of which US\$37.8 million was paid on May 28, 2019 (Eastern Time) to shareholders of record as of the close of trading on May 10, 2019 (Eastern Time). Nonetheless, we intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

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Any other future determination to pay dividends will be made at the discretion of our board of directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. When we pay any dividends, we will pay our ADS holders to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description of Securities other than Equity Securities—American Depositary Shares.” Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

We are an exempted company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we may rely on dividends distributed by our PRC subsidiaries. Certain payments from our PRC subsidiaries to us may be subject to PRC withholding income tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards every year to a statutory common reserve fund until the aggregate amount of such reserve fund reaches 50% of the registered capital of such subsidiary. Such statutory reserves are not distributable as loans, advances or cash dividends.

B. Significant Changes

We have not experienced any other significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing two of our Class A ordinary shares, have been listed on the New York Stock Exchange since July 26, 2018 under the symbol “CANG.” See Exhibit 2.4 to this Form 20-F for a description of our ADSs.

B. Plan of Distribution

Not Applicable.

C. Markets

Our ADSs, each representing two of our Class A ordinary shares, have been listed on the New York Stock Exchange since July 26, 2018 under the symbol “CANG.”

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D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our third amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018. Our shareholders adopted our third amended and restated memorandum and articles of association by unanimous resolutions passed on June 22, 2018, and effective immediately prior to the completion of our initial public offering of common shares represented by our ADSs.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Foreign Exchange.”

E. Taxation

The following is a general summary of certain Cayman Islands, People’s Republic of China and United States federal income tax consequences relevant to an investment in our ADSs and Class A ordinary shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address U.S. state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and Class A ordinary shares.

Cayman Islands Taxation

The Cayman Islands currently levies 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 or withholding tax applicable to us or to any holder of our ADSs and Class A ordinary shares. 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 after execution brought within the jurisdiction of, the Cayman Islands. 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. The Cayman Islands is a party to a double tax treaty entered with the United Kingdom in 2010 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

People's Republic of China Taxation

In March 2007, the National People's Congress of China enacted the Enterprise Income Tax Law, which became effective on January 1, 2008 and was most recently amended on December 29, 2018. The Enterprise Income Tax Law provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules of the Enterprise Income Tax Law further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the business, personnel, accounts and properties of an enterprise. While we do not consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company or any of our overseas subsidiaries as a PRC resident enterprise since a substantial majority of the members of our management team as well as the management team of some of our overseas subsidiaries are located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our Cayman Islands holding company is a "resident enterprise" for PRC enterprise income tax purposes, a 10% withholding tax would be imposed on dividends we pay to our non-PRC enterprise shareholders and a 10% tax would be imposed with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs. Furthermore, dividends paid to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or Class A ordinary shares by such investors may be subject to PRC tax at a rate of 20% (which in the case of dividends may be withheld at source). Any PRC tax liability may be reduced by an applicable tax treaty. However, it is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

Certain United States Federal Income Tax Considerations

The following discussion describes certain United States federal income tax consequences of the purchase, ownership and disposition of our ADSs and Class A ordinary shares as of the date hereof. This discussion deals only with ADSs and Class A ordinary shares that are held as capital assets by a United States Holder (as defined below).

As used herein, the term “United States Holder” means a beneficial owner of our ADSs or Class A ordinary shares that is, for United States federal income tax purposes, any of the following:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. In addition, this discussion is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;

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- a person holding our ADSs or Class A ordinary shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock by vote or value;
- a person required to accelerate the recognition of any item of gross income with respect to our ADSs or Class A ordinary shares as a result of such income being recognized on an applicable financial statement;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds our ADSs or Class A ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ADSs or Class A ordinary shares, you should consult your tax advisors.

This discussion does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income, United States federal estate and gift taxes or the effects of any state, local or non-United States tax laws. **If you are considering the purchase of our ADSs or Class A ordinary shares, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the purchase, ownership and disposition of our ADSs or Class A ordinary shares, as well as the consequences to you arising under other United States federal tax laws and the laws of any other taxing jurisdiction.**

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying Class A ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the discussion under “—Passive Foreign Investment Company” below, the gross amount of distributions on the ADSs or Class A ordinary shares (including any amounts withheld to reflect PRC withholding taxes, as discussed above under “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the tax basis of the ADSs or Class A ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain recognized on a sale or exchange. We do not, however, expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend.

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Any dividends that you receive (including any withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of Class A ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States investors, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs (which are listed on the NYSE) are readily tradable on an established securities market in the United States. Since we do not expect that our Class A ordinary shares will be listed on an established securities market in the United States, we do not believe that dividends that we pay on our common shares that are not represented by ADSs currently meet the conditions required for these reduced tax rates. There also can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC resident enterprise under the Enterprise Income Tax Law, we may be eligible for the benefits of the income tax treaty between the United States and PRC, or the Treaty, and if we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by ADSs, may be eligible for reduced rates of taxation. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

In addition, notwithstanding the foregoing, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a passive foreign investment company (a “PFIC”) in the taxable year in which such dividends are paid or in the preceding taxable year. As discussed below under “— Passive Foreign Investment Company,” we believe that there is a significant risk that we were a PFIC for 2020, and may be classified as a PFIC in future taxable years.

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Subject to certain conditions and limitations (including a minimum holding period requirement), any PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or Class A ordinary shares will be treated as income from sources outside the United States and will generally constitute passive category income. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Distributions of ADSs, Class A ordinary shares or rights to subscribe for ADSs or Class A ordinary shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

Passive Foreign Investment Company

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, income equivalent to interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). Cash is generally treated as an asset that produces or is held for the production of passive income. If we own at least 25% (by value) of the stock of another corporation, for purposes of determining whether we are a PFIC, we will be treated as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income. However, there is uncertainty as to the treatment of our corporate structure and ownership of our consolidated VIE for United States federal income tax purposes. For United States federal income tax purposes, we consider ourselves to own the equity of our consolidated VIE. If it is determined, contrary to our view, that we do not own the equity of our consolidated VIE for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

There are uncertainties in the application of the PFIC rules to a company with our particular business operations. However, based on the past and projected composition and classification of our income and assets, we believe that there is a significant risk that we were a PFIC for United States federal income tax purposes for 2020, and may be classified as a PFIC in future taxable years.

The determination of whether we are a PFIC is made annually. Accordingly, our PFIC status may change due to changes in our asset or income composition. The calculation of the value of our assets will also be based, in part, on the quarterly market value of our ADSs, which is subject to change. Therefore, a decrease in the price of our ADSs may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, you will be subject to special tax rules discussed below.

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If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and you do not make a timely mark-to-market election, as described below, you will be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a pledge, of ADSs or Class A ordinary shares. Distributions received in a taxable year will be treated as excess distributions to the extent that they are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or Class A ordinary shares. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or Class A ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year for individuals or corporations, as applicable, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Although the determination of whether we are a PFIC is made annually, if we are a PFIC for any taxable year in which you hold our ADSs or Class A ordinary shares, you will generally be subject to the special tax rules described above for that year and for each subsequent year in which you hold the ADSs or Class A ordinary shares (even if we do not qualify as a PFIC in such subsequent years). However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your ADSs or Class A ordinary shares had been sold on the last day of the last taxable year during which we were a PFIC. You are urged to consult your own tax advisor about this election.

In lieu of being subject to the special tax rules discussed above, you may make a mark-to-market election with respect to your ADSs or Class A ordinary shares provided such ADSs or Class A ordinary shares are treated as “marketable stock.” The ADSs or Class A ordinary shares generally will be treated as marketable stock if the ADSs or Class A ordinary shares are regularly traded on a “qualified exchange or other market” (within the meaning of the applicable Treasury regulations). Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the NYSE which constitutes a qualified exchange, although there can be no assurance that the ADSs will be “regularly traded” for purposes of the mark-to-market election. It is intended that only the ADSs and not the Class A ordinary shares will be listed on the NYSE. Consequently, if you are a holder of Class A ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election.

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If you make an effective mark-to-market election, for each taxable year that we are a PFIC you will include as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. In addition, upon the sale or other disposition of your ADSs in a year that we are a PFIC, any gain will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

If you make a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or other market, or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, U.S. taxpayers can sometimes avoid the special tax rules described above by electing to treat a PFIC as a “qualified electing fund” under Section 1295 of the Code. However, this option would only be available to you if we comply with the requirements necessary to permit you to make this election (and no assurances can be given in this regard).

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and any of our non-United States subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. You will not be able to make the mark-to-market election described above in respect of any lower-tier PFIC. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

You will generally be required to file Internal Revenue Service Form 8621 if you hold our ADSs or Class A ordinary shares in any year in which we are a PFIC. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or Class A ordinary shares if we are a PFIC in any taxable year.

Taxation of Capital Gains

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other disposition of the ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized for the ADSs or Class A ordinary shares and your tax basis in the ADSs or Class A ordinary shares. Subject to the discussion under “—Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if you have held the ADSs or Class A ordinary shares for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax were imposed on any gain, and if you are eligible for the benefits of the Treaty, you may elect to treat such gain as PRC source gain under the Treaty. If you are not eligible for the benefits of the Treaty or if you fail to make the election to treat any gain as PRC source, then you generally would not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of ADSs or Class A ordinary shares unless such credit can be applied (subject to applicable limitations) against tax due on other income derived from foreign sources.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our ADSs or Class A ordinary shares and the proceeds from the sale, exchange or other disposition of our ADSs or Class A ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York and Chicago, Illinois. You also can request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC's Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

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As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in Renminbi. The functional currency of our company and Cango Group Limited is the U.S. dollar. The functional currency of our subsidiary in the PRC, the VIE and the VIE's subsidiaries is the Renminbi. We use Renminbi as our reporting currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the statements of operations. Due to foreign currency translation adjustments, we had foreign exchange gain of RMB1.4 million in 2018, foreign exchange gain of RMB5.1 million in 2019 and foreign exchange loss of RMB8.8 million (US\$1.4 million) in 2020.

Historically we have used, and in the future we may use, certain derivative financial instruments to hedge our exposure to foreign exchange risk. Specifically, we have entered into various foreign currency forward contracts that allow us to sell U.S. dollars at a pre-determined exchange rate on the maturity date. We did not have any such foreign currency forward contracts outstanding as of December 31, 2018, 2019 and 2020.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the Renminbi appreciated approximately 7% against the U.S. dollar during this one-year period. Starting from the beginning of 2019, the Renminbi has depreciated significantly against the U.S. dollar again. In early August 2019, the PBOC set the Renminbi's daily reference rate at RMB7.0039 to US\$1.00, the first time that the exchange rate of Renminbi to U.S. dollar exceeded 7.0 since 2008. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the 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 the Renminbi and the U.S. dollar in the future.

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To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the 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 the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

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. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future.

We may invest the net proceeds we receive from the offering 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.

Inflation

Since inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for 2018, 2019 and 2020 were increases of 2.1%, 2.9% and 2.5%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not Applicable

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B. Warrants and Rights

Not Applicable

C. Other Securities

Not Applicable

D. American Depositary Shares

Citibank, N.A. acts as the depositary bank for the American Depositary Shares. Citibank's depositary offices are located at 388 Greenwich Street, New York, New York 10013. The depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank, N.A.—Hong Kong, located at 9/F., Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Our ADSs, each representing two of our Class A ordinary shares, have been listed on the New York Stock Exchange since July 26, 2018 under the symbol "CANG." See Exhibit no. 2.4 to this Form 20-F for a description of the rights of holders of the ADRs.

Depositary Fees and Charges

Under the terms of the deposit agreement for our ADSs, an ADS holder will be required to pay the following service fees to the depositary and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of ADSs):

<u>Service</u>	<u>Fees</u>
• Issuance of ADSs (e.g., an issuance of ADS upon a deposit of Class A ordinary shares, upon a change in the ADS(s)-to Class A ordinary share(s) ratio, or for any other reason), excluding ADS issuances as a result of distributions of Class A ordinary shares)	Up to U.S. 5¢ per ADS issued
• Cancellation of ADSs (e.g., a cancellation of ADSs for delivery of deposited property, upon a change in the ADS(s)-to Class A ordinary share(s) ratio, or for any other reason)	Up to U.S. 5¢ per ADS canceled
• Distribution of cash dividends or other cash distributions (e.g., upon a sale of rights and other entitlements)	Up to U.S. 5¢ per ADS held
• Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs	Up to U.S. 5¢ per ADS held

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| • Distribution of securities other than ADSs or rights to purchase additional ADSs (e.g., upon a spin-off) | Up to U.S. 5¢ per ADS held |
| • ADS Services | Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depositary bank |

As an ADS holder you will also be responsible to pay certain charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- the registration fees as may from time to time be in effect for the registration of Class A ordinary shares on the share register and applicable to transfers of Class A ordinary shares to or from the name of the custodian, the depositary bank or any nominees upon the making of deposits and withdrawals, respectively;
- certain cable, telex and facsimile transmission and delivery expenses;
- the expenses and charges incurred by the depositary bank in the conversion of foreign currency;
- the fees and expenses incurred by the depositary bank in connection with compliance with exchange control regulations and other regulatory requirements applicable to Class A ordinary shares, ADSs and ADRs; and
- the fees and expenses incurred by the depositary bank, the custodian, or any nominee in connection with the servicing or delivery of deposited property.

ADS fees and charges for (i) the issuance of ADSs, and (ii) the cancellation of ADSs are charged to the person for whom the ADSs are issued (in the case of ADS issuances) and to the person for whom ADSs are canceled (in the case of ADS cancellations). In the case of ADSs issued by the depositary bank into DTC, the ADS issuance and cancellation fees and charges may be deducted from distributions made through DTC, and may be charged to the DTC participant(s) receiving the ADSs being issued or the DTC participant(s) holding the ADSs being canceled, as the case may be, on behalf of the beneficial owner(s) and will be charged by the DTC participant(s) to the account of the applicable beneficial owner(s) in accordance with the procedures and practices of the DTC participants as in effect at the time. ADS fees and charges in respect of distributions and the ADS service fee are charged to the holders as of the applicable ADS record date. In the case of distributions of cash, the amount of the applicable ADS fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the ADS service fee, holders as of the ADS record date will be invoiced for the amount of the ADS fees and charges and such ADS fees and charges may be deducted from distributions made to holders of ADSs. For ADSs held through DTC, the ADS fees and charges for distributions other than cash and the ADS service fee may be deducted from distributions made through DTC, and may be charged to the DTC participants in accordance with the procedures and practices prescribed by DTC and the DTC participants in turn charge the amount of such ADS fees and charges to the beneficial owners for whom they hold ADSs.

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In the event of refusal to pay the depositary bank fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary bank fees from any distribution to be made to the ADS holder. Certain depositary fees and charges (such as the ADS services fee) may become payable shortly after the closing of the ADS offering. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive prior notice of such changes. The depositary bank may reimburse us for certain expenses incurred by us in respect of the ADR program, by making available a portion of the ADS fees charged in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time.

Payments by Depositary

As of December 31, 2020, we received US\$1.4 million payment from Citibank, N.A., the depositary bank for our ADR program.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.”

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File No. 333-225813) in relation to our initial public offering, which was declared effective by the SEC on July 25, 2018. In the second quarter of 2018, we completed our initial public offering in which we issued and sold an aggregate of 4,300,000 ADSs, representing 8,600,000 Class A ordinary shares, resulting in net proceeds to us of approximately US\$39.7 million.

As of December 31, 2020, we had used approximately US\$9.6 million of the net proceeds received from our initial public offering to satisfy working capital needs.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this annual report, an evaluation has been carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-15e and 15d-15(e) promulgated under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Commission.

Management’s Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. As required by Rule 13a-15(c) of the Exchange Act, our management conducted an evaluation of our company’s internal control over financial reporting as of December 31, 2020 based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting because the Company is neither an accelerated filer nor a large accelerated filer and therefore is exempt from the requirement of an attestation report.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined Chi Ming Lee, who is an independent director, qualifies as an audit committee financial expert as defined in Item 16A of the instruction to Form 20-F.

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ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers and employees. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the SEC on June 22, 2018. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our independent public accountant for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	For the Year Ended December 31,	
	2019	2020
	(In thousands of US dollars)	
Audit Fees ⁽¹⁾	919	1,085
Tax Fees	—	—
All Other Fees	—	—
Total	919	1,085

(1) Audit fees include the aggregate fees billed in each of the fiscal period listed for professional services rendered by our independent public accountant for the audit of our annual financial statements, review of our quarterly financial statements and services related to our initial public offering.

The policy of our audit committee or our board of directors is to pre-approve all audit and non-audit services provided by our independent public accountant, including audit services, audit-related services and other services as described above.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth information about our purchases of outstanding ADSs from June 5, 2019 to March 31, 2021:

Period	Total Number of ADSs Purchased	Average Price Paid per ADS ⁽¹⁾	Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Program ⁽²⁾
June 5, 2019 through June 30, 2019	—	—	—	US\$ 10.0 million
July 2019	431,556	US\$ 6.95	431,556	US\$ 7.0 million
August 1, 2019 through April 30, 2020	—	—	—	US\$ 7.0 million
May 2020	1,398,516	US\$ 5.00	1,830,072	US\$ 0.0 million
Marh 2, 2021 through March 14, 2021	—	—	—	US\$50.0 million
March 2021	4,189,888	US\$ 9.14	6,019,960	US\$ 11.7 million
Total	6,019,960	US\$ 8.02	6,019,960	US\$ 11.7 million

(1) Each of our ADSs represents two Class A ordinary shares.

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- (2) We announced a share repurchase program approved by our board of directors on June 5, 2019, under which we may repurchase up to US\$10 million worth of our outstanding ADSs and/or Class A ordinary shares over a period of twelve months. We announced another share repurchase program approved by our board of directors on March 2, 2021, under which we may repurchase up to US\$50 million worth of our outstanding ADSs and/or Class A ordinary shares over a period of twelve months. The repurchases have been, and will be, through various means, including open market transactions, privately negotiated transactions, block trades or any combination thereof. The repurchases have been, and will be, effected in compliance with Rule 10b5-1 and/or Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and our insider trading policy. The number of ADSs repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, price, trading volume and general market conditions.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a “foreign private issuer” (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, each representing two ordinary share, are listed on the New York Stock Exchange. Under Section 303A of the New York Stock Exchange Listed Company Manual, New York Stock Exchange listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the New York Stock Exchange with limited exceptions. The following summarizes some significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the New York Stock Exchange.

Under the New York Stock Exchange Listed Company Manual, or the NYSE Manual, U.S. domestic listed companies are required to have a compensation committee and a nominating/corporate governance committee, each composed entirely of independent directors, which are not required under the Companies Act (As Revised) of the Cayman Islands, our home country. Currently, our compensation committee is composed of three members, only one of whom is an independent director. Our corporate governance and nominating committee is composed of three members, only one of whom is an independent director. The NYSE Manual also requires U.S. domestic listed companies to regularly hold executive sessions for non-management directors, or an executive session that only includes independent directors at least once a year. We are not subject to this requirement under the Cayman Islands law and have decided to follow our home country practice on this matter. In addition, the NYSE Manual requires shareholder approval for certain matters, such as requiring that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans, which is not required under the Cayman Islands law. We intend to follow the home country practice in determining whether shareholder approval is required.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

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ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Cango Inc., its subsidiaries and its variable interest entities are included at the end of this annual report.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<u>Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
2.1	<u>Form of American Depositary Receipt evidencing American Depositary Shares (incorporated herein by reference to Exhibit (a) to the registration statement on Form F-6 (File No. 333-226083), as amended, filed with the Securities and Exchange Commission on July 6, 2018)</u>
2.2	<u>Specimen of Ordinary Share Certificate (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
2.3	<u>Form of Deposit Agreement between the Registrant and Citibank, N.A., as depositary (incorporated herein by reference to Exhibit (a) to the registration statement on Form F-6 (File No. 333-226083), as amended, filed with the Securities and Exchange Commission on July 6, 2018)</u>
2.4	<u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated herein by reference to Exhibit 2.4 to the annual report on Form 20-F (File No. 001-38590), filed with the Securities and Exchange Commission on April 27, 2020)</u>
4.1	<u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.2	<u>Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.3	<u>Form of Equity Interest Pledge Agreement by and among Can Gu Long (Shanghai) Information Technology Consultation Service Co., Ltd. ("Can Gu Long"), Shanghai Cango Investment and Management Consultation Service Co., Ltd. ("Shanghai Cango") and each shareholder of Shanghai Cango (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.4	<u>Form of Power of Attorney by each shareholder of Shanghai Cango (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.5	<u>Exclusive Business Cooperation Agreement by and between Can Gu Long and Shanghai Cango (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.6	<u>Form of Exclusive Option Agreement by and between Can Gu Long, Shanghai Cango and each shareholder of Shanghai Cango (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.7	<u>Financial Support Undertaking Letter issued by the Registrant to Shanghai Cango (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.8	<u>Service Agreement, dated January 31, 2017, between Jincheng Bank Co., Ltd. (“Jincheng Bank”) and Shanghai Cango (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.9	<u>Cooperation Agreement (undated) between Jincheng Bank and Shanghai Cango relating to the Outsourcing of Onsite Collection and Disposal Business (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.10	<u>Automotive Financing Business Cooperation Agreement, dated April 4, 2018, between WeBank and Shanghai Cango (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.11	<u>Equity Interest Transfer Agreement, dated September 19, 2017, among Autohome Financing Hong Kong Limited, Express Group Development Limited, Shanghai Cango and Beijing Cheerbright Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.12	<u>Share Purchase Agreement, dated March 23, 2018, among the Registrant, Cango Group Limited, Can Gu Long, Shanghai Cango and shareholders party thereto (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.13	<u>Share Purchase Agreement, dated June 4, 2018, among the Registrant, Cango Group Limited, Can Gu Long, Shanghai Cango and shareholders party thereto (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.14	<u>Equity Interest Transfer Agreement, dated May 10, 2018, between Ningbo Meishan Bonded Harbor Zone Xinxiang Investment Management L.P. (formerly known as Beijing Chehejia Technology L.P.) and Shanghai Cango (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.15	<u>Share Purchase Agreement, dated April 24, 2018, between Paradigm Malls Group Limited and Shanghai Cango (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.16	<u>Cango Inc. Share Incentive Plan 2018 (incorporated herein by reference to Exhibit 10.16 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
4.17*	<u>Cooperation Agreement on Automobile Finance Business, dated April 30, 2020, between WeBank and Shanghai Cango</u>
4.18*†	<u>Automobile Finance Guarantee Contract, dated January 25, 2021, among WeBank, Shanghai Cango and Cango Financing Guarantee Co., Ltd.</u>
4.19*†	<u>Automobile Finance Project Cooperation Agreement, dated March 24, 2020, among Shanghai Cango, Chongqing Wantang Information Technology Co., Ltd. and MYbank</u>
4.20*†	<u>Automobile Finance Project Counter-guarantee Agreement, dated March 24, 2020, between Cango Financing Guarantee Co., Ltd. and MYbank</u>
4.21*†	<u>Personal Consumer Loan Business Cooperation Agreement, dated July 31, 2018, among Puxi Branch of Bank of Shanghai Co., Ltd., Shanghai Chejia and Shanghai Cango</u>
8.1*	<u>List of Subsidiaries</u>

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<u>Exhibit Number</u>	<u>Description of Document</u>
11.1	<u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-225813), as amended, initially filed with the Securities and Exchange Commission on June 22, 2018)</u>
12.1*	<u>Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>Certification by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>Certification by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of Fangda Partners</u>
15.2*	<u>Consent of Independent Registered Public Accounting Firm</u>
101.INS*	Inline XBRL Instance Document—this instance document does not appear on the Interactive Data File because its XBRL tags are not embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

† Portions of this exhibit have been omitted in accordance with instruction 4 to Item 19 of Form 20-F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CANGO INC.

By /s/ Xiaojun Zhang

Name: Xiaojun Zhang

Title: Chairman

Date: April 27, 2021

CANGO INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Cango Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cango Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers using the modified retrospective approach and its method for accounting for certain equity securities in the year ended December 31, 2019.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company’s auditor since 2018.
Shanghai, the People’s Republic of China

April 27, 2021

CANGO INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Note	As of December 31,		
		2019 RMB	2020 RMB	2020 US\$
ASSETS				
Current assets (including RMB644,451,710 and RMB605,970,437 (US\$92,869,033) from consolidated trusts, ABSs and ABN as of December 31, 2019 and 2020, respectively):				
Cash and cash equivalents		2,002,314,688	1,426,899,576	218,681,927
Restricted cash – current		970,993,759	9,693,008	1,485,518
Short-term investments	3	597,265,740	4,342,356,612	665,495,266
Accounts receivable, net of allowance of RMB nil and RMB nil (US\$ nil) as of December 31, 2019 and 2020, respectively	4	148,562,946	141,594,170	21,700,256
Finance lease receivables - current, net of allowance of RMB11,988,564 and RMB18,097,313 (US\$2,773,535) as of December 31, 2019 and 2020, respectively	6	1,661,082,122	2,035,397,525	311,938,318
Short-term consumer financing receivables, net of allowance of RMB1,277,390 and RMB2,304,639 (US\$353,201) as of December 31, 2019 and 2020, respectively		13,298,562	23,168	3,551
Financing receivables, net of allowance of RMB10,822,976 and RMB16,265,330 (US\$2,492,771) as of December 31, 2019 and 2020, respectively		9,103,522	20,105,893	3,081,363
Short-term contract asset		20,688,424	364,618,635	55,880,251
Prepayments and other current assets	7	117,445,282	558,360,959	85,572,561
Total current assets		5,540,755,045	8,899,049,546	1,363,839,011
Non-current assets (including RMB389,666,998 and RMB101,206,823 (US\$15,510,624) from consolidated trusts, ABSs and ABN as of December 31, 2019 and 2020, respectively):				
Restricted cash - non-current		873,674,276	878,299,140	134,605,232
Long-term investments	3	547,888,818	—	—
Goodwill	5	145,063,857	145,063,857	22,232,009
Property and equipment, net		14,736,767	10,311,971	1,580,379
Intangible assets	8	44,758,242	44,887,871	6,879,367
Long-term contract asset		11,655,356	281,374,110	43,122,469
Deferred tax assets	14	100,667,946	170,951,082	26,199,400
Finance lease receivables - non-current, net of allowance of RMB7,100,273 and RMB5,629,107 (US\$862,698) as of December 31, 2019 and 2020, respectively	6	1,448,958,373	1,454,499,864	222,911,857
Other non-current assets		8,415,694	261,495,158	40,075,886
Total non-current assets		3,195,819,329	3,246,883,053	497,606,599
TOTAL ASSETS		8,736,574,374	12,145,932,599	1,861,445,610

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.
CONSOLIDATED BALANCE SHEETS - continued
AS OF DECEMBER 31, 2019 and 2020
(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Note	As of December 31,		
		2019 RMB	2020 RMB	US\$
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities (including current liabilities of the consolidated VIE without recourse to the Company of RMB2,908,576,921 and RMB2,444,666,481 (US\$374,661,531) as of December 31, 2019 and December 31, 2020, respectively), (including RMB599,881,162 and RMB401,821,061 (US\$61,581,772) from consolidated trusts, ABSs and ABN as of December 31, 2019 and 2020, respectively):				
Short-term debts	9	1,439,749,760	355,816,940	54,531,332
Long-term debts – current	9	863,418,789	1,228,783,730	188,319,346
Accrued expenses and other current liabilities	10	278,690,234	324,734,202	49,767,694
Risk assurance liabilities	11	259,952,473	460,829,299	70,625,180
Income tax payable		67,308,814	87,132,455	13,353,633
Total current liabilities		2,909,120,070	2,457,296,626	376,597,185
Non-current liabilities (including long-term debts of the consolidated VIE without recourse to the Company of RMB335,794,013 and RMB995,185,345 (US\$152,518,827) as of December 31, 2019 and December 31, 2020, respectively), (including RMB79,884,342 and RMB nil (US\$ nil) from consolidated trusts, ABSs and ABN as of December 31, 2019 and 2020, respectively):				
Long-term debts	9	301,667,717	977,791,191	149,853,056
Deferred tax liability	14	12,329,929	330,765,029	50,691,958
Other non-current liabilities		21,796,367	4,870,616	746,455
Total non-current liabilities		335,794,013	1,313,426,836	201,291,469
Total liabilities		3,244,914,083	3,770,723,462	577,888,654
Commitments and contingencies	19			
Shareholders' equity				
Class A Ordinary shares (par value of US\$0.0001 per share; 420,674,280 shares authorized as of December 31, 2019 and 2020, respectively; 225,831,214 shares issued and 224,968,102 shares outstanding as of December 31, 2019; 227,831,213 shares issued and 224,771,083 shares outstanding as of December 31, 2020)				
	20	153,121	154,483	23,676
Class B Ordinary shares (par value of US\$0.0001 per share; 79,325,720 shares authorized as of December 31, 2019 and 2020, respectively; 76,978,677 shares issued and outstanding as of December 31, 2019; 74,978,677 shares issued and outstanding as of December 31, 2020)				
	20	51,139	49,777	7,629
Treasury shares	21	(20,638,881)	(56,419,225)	(8,646,625)
Additional paid-in capital		4,526,344,454	4,591,455,557	703,671,350
Accumulated other comprehensive income (loss)		119,430,738	(115,386,427)	(17,683,744)
Retained earnings		852,508,968	3,955,354,972	606,184,670
Total Cango Inc.'s equity		5,477,849,539	8,375,209,137	1,283,556,956
Non-controlling interests		13,810,752	—	—
Total shareholders' equity		5,491,660,291	8,375,209,137	1,283,556,956
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		8,736,574,374	12,145,932,599	1,861,445,610

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020
(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Note	For the years ended December 31,			
		2018 RMB	2019 RMB	2020 RMB	2020 US\$
Revenues					
Loan facilitation income and other related income (including related party amounts of RMB14,047,015, RMB nil and RMB nil (US\$ nil) for the years ended December 31, 2018, 2019 and 2020, respectively)		916,280,350	913,836,623	891,836,601	136,679,939
Leasing income		59,093,331	300,078,043	286,079,245	43,843,562
After-market services income (including related party amounts of RMB881,334, RMB nil and RMB nil (US\$ nil) for the years ended December 31, 2018, 2019 and 2020, respectively)		100,053,488	205,998,075	241,193,243	36,964,482
Automobile trading income		6,583,941	11,414,382	624,773,721	95,750,762
Others		9,403,167	8,741,702	8,548,942	1,310,183
Total Revenues		1,091,414,277	1,440,068,825	2,052,431,752	314,548,928
Operating cost and expenses					
Cost of revenue	12	430,059,037	539,267,417	1,098,120,749	168,294,368
Sales and marketing		167,244,419	192,811,348	195,893,662	30,022,017
General and administrative		151,075,936	236,551,077	265,691,411	40,718,990
Research and development		46,709,014	57,405,921	62,596,195	9,593,287
Net (gain) loss on risk assurance liabilities		(353,731)	34,257,754	2,268,180	347,614
Provision for credit losses		19,960,050	56,478,959	109,564,631	16,791,514
Total operating cost and expense		814,694,725	1,116,772,476	1,734,134,828	265,767,790
Income from operations		276,719,552	323,296,349	318,296,924	48,781,138
Interest and investment income (including related party amounts of RMB3,414,795, RMB nil and RMB nil (US\$ nil) for the years ended December 31, 2018, 2019 and 2020, respectively)		61,465,449	96,004,567	72,806,814	11,158,132
Income (loss) from equity method investments		42,684,659	(926,205)	—	—
Fair value change of equity investment		—	41,581,818	3,315,475,734	508,118,886
Interest expense		(19,010,616)	(13,457,818)	(2,758,629)	(422,778)
Foreign exchange gain (loss), net		1,447,099	5,141,112	(8,848,354)	(1,356,070)
Other income, net	13	32,700,746	41,300,464	49,139,337	7,530,933
Other expenses		—	(5,121,054)	(838,115)	(128,447)
Net income before income taxes		396,006,889	487,819,233	3,743,273,711	573,681,794
Income tax expenses	14	(89,082,554)	(82,960,493)	(369,853,650)	(56,682,552)
Net income		306,924,335	404,858,740	3,373,420,061	516,999,242
Less: Net income attributable to non-controlling interests		4,232,270	13,944,848	3,902,214	598,040
Net income attributable to Cango Inc.’s shareholders		302,692,065	390,913,892	3,369,517,847	516,401,202

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Note	For the years ended December 31,			
		2018 RMB	2019 RMB	2020 RMB	US\$
Earnings per Class A and Class B ordinary share:					
Basic	15	1.08	1.29	11.21	1.72
Diluted	15	1.08	1.29	11.09	1.70
Earnings per ADS (2 ordinary shares equal 1 ADS):					
Basic	15	2.17	2.59	22.43	3.44
Diluted	15	2.16	2.58	22.18	3.40
Weighted average shares used to compute earnings per Class A and Class B share:					
Basic	15	279,156,744	302,417,352	300,484,860	300,484,860
Diluted	15	280,873,806	303,283,658	303,900,645	303,900,645
Other comprehensive income (loss), net of tax					
Unrealized income (losses) on available-for-sale securities		822,343	(146,801)	—	—
Reclassification of losses to net income		—	(276,843)	—	—
Foreign currency translation adjustment		109,029,351	10,401,386	(234,817,165)	(35,987,305)
Total comprehensive income, net of tax		416,776,029	414,836,482	3,138,602,896	481,011,937
Total comprehensive income attributable to non-controlling interests		4,232,270	13,944,848	3,902,214	598,040
Total comprehensive income attributable to Cango Inc.’s shareholders		412,543,759	400,891,634	3,134,700,682	480,413,897

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi ("RMB") and U.S. dollars ("US\$"), except for number of shares and per share data)

	Attributable to Cango Inc.									
	Class A and Class B Ordinary Shares		Series A-2 convertible preferred shares		Additional paid-in capital	Accumulated other comprehensive (loss) income	(Accumulated deficit) Retained earnings	Total Cango Inc.'s (deficit) equity	Non- controlling interests	Total shareholders' (deficit) equity
	Number of Shares	Amount	Number of Shares	Amount						
Balance at January 1, 2018	124,969,987	83,145	2,179,215	1,450	4,100,000	(398,698)	(2,711,414,472)	(2,707,628,575)	25,790,121	(2,681,838,454)
Issuance of ordinary shares upon IPO and underwriters' partial exercise of over-allotment option, net of issuance costs	8,600,000	5,859	—	—	272,145,213	—	—	272,151,072	—	272,151,072
Capital contribution from shareholders, net of issuance costs	—	—	—	—	3,304,336,306	—	—	3,304,336,306	5,600,000	3,309,936,306
Conversion of convertible preferred shares to ordinary shares	169,239,905	115,256	(2,179,215)	(1,450)	835,511,278	—	3,106,758,845	3,942,383,929	—	3,942,383,929
Purchase of subsidiaries' equity from non-controlling interests	—	—	—	—	(5,425,247)	—	—	(5,425,247)	(4,488,906)	(9,914,153)
Stock-based compensation (note 18)	—	—	—	—	33,410,913	—	—	33,410,913	—	33,410,913
Net income	—	—	—	—	—	—	302,692,065	302,692,065	4,232,270	306,924,335
Other comprehensive income	—	—	—	—	—	109,851,694	—	109,851,694	—	109,851,694
Dividends to non-controlling interest holders	—	—	—	—	—	—	—	—	(27,538,814)	(27,538,814)
Balance at December 31, 2018	302,809,892	204,260	—	—	4,444,078,463	109,452,996	698,036,438	5,251,772,157	3,594,671	5,255,366,828

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi ("RMB") and U.S. dollars ("US\$"), except for number of shares and per share data)

	Attributable to Cango Inc.								
	Class A and Class B Ordinary Shares		Treasury shares	Additional paid-in capital	Accumulated other comprehensive (loss) income	(Accumulated deficit) Retained earnings	Total Cango Inc.'s (deficit) equity	Non- controlling interests	Total shareholders' (deficit) equity
	Number of Shares	Amount							
Balance at December 31, 2018	302,809,892	204,260	—	4,444,078,463	109,452,996	698,036,438	5,251,772,157	3,594,671	5,255,366,828
Adjustments due to the adoption of ASC 606	—	—	—	—	—	17,585,853	17,585,853	—	17,585,853
Repurchase of ordinary shares	(863,112)	—	(20,638,881)	—	—	—	(20,638,881)	—	(20,638,881)
Retirement of ordinary shares	(1)	—	—	—	—	—	—	—	—
Liquidation of subsidiaries' equity from non-controlling interest holders	—	—	—	—	—	—	—	(574,212)	(574,212)
Stock-based compensation (note 18)	—	—	—	82,265,991	—	—	82,265,991	—	82,265,991
Net income	—	—	—	—	—	390,913,892	390,913,892	13,944,848	404,858,740
Other comprehensive income	—	—	—	—	9,977,742	—	9,977,742	—	9,977,742
Dividends to shareholders	—	—	—	—	—	(254,027,215)	(254,027,215)	(3,154,555)	(257,181,770)
Balance at December 31, 2019	301,946,779	204,260	(20,638,881)	4,526,344,454	119,430,738	852,508,968	5,477,849,539	13,810,752	5,491,660,291
Repurchase of ordinary shares	(2,797,032)	—	(49,219,318)	—	—	—	(49,219,318)	—	(49,219,318)
Exercise of share options	600,014	—	13,438,974	(6,745,258)	—	—	6,693,716	—	6,693,716
Retirement of ordinary shares	(1)	—	—	—	—	—	—	—	—
Purchase of subsidiaries' equity from non-controlling interest holders	—	—	—	(6,898,467)	—	—	(6,898,467)	(17,245,533)	(24,144,000)
Liquidation of subsidiaries' equity from non-controlling interest holders	—	—	—	—	—	—	—	(467,433)	(467,433)
Stock-based compensation (note 18)	—	—	—	78,754,828	—	—	78,754,828	—	78,754,828
Net income	—	—	—	—	—	3,369,517,847	3,369,517,847	3,902,214	3,373,420,061
Other comprehensive income	—	—	—	—	(234,817,165)	—	(234,817,165)	—	(234,817,165)
Dividends to shareholders	—	—	—	—	—	(266,671,843)	(266,671,843)	—	(266,671,843)
Balance at December 31, 2020	299,749,760	204,260	(56,419,225)	4,591,455,557	(115,386,427)	3,955,354,972	8,375,209,137	—	8,375,209,137
Balance as of December 31, 2020, in US\$	—	31,305	(8,646,625)	703,671,350	(17,683,744)	606,184,670	1,283,556,956	—	1,283,556,956

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020
(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Cash flows from operating activities:				
Net income	306,924,335	404,858,740	3,373,420,061	516,999,242
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	7,190,216	10,466,942	9,544,137	1,462,703
Share-based compensation expense	33,410,913	82,265,991	78,754,828	12,069,705
Investment income	—	(32,516,817)	—	—
(Gain) loss on risk assurance liabilities	(353,731)	34,257,754	2,268,180	347,614
Provision for credit losses	19,960,050	56,478,959	109,564,631	16,791,514
(Gain) loss on equity method investment	(42,684,659)	926,205	—	—
Other income – change in fair value of derivative instruments	—	—	(3,289,676)	(504,165)
Other expenses – change in fair value of derivative instruments	—	3,289,676	—	—
Fair value change of equity investment	—	(41,581,818)	(3,315,475,734)	(508,118,886)
Loss on disposal of property and equipment	32,432	45,639	79,756	12,223
Unrealized foreign exchange (gain) loss, net	(1,447,099)	(5,141,112)	8,848,354	1,356,070
Deferred income tax (benefit) expense	(32,694,920)	(9,034,211)	248,151,964	38,030,952
Changes in operating assets and liabilities:				
Accounts receivable	(918,623)	(56,086,171)	6,968,776	1,068,012
Financing receivables	(20,750,252)	(39,987,198)	(83,186,886)	(12,748,948)
Contract assets	—	23,104,124	(613,648,965)	(94,045,818)
Receivables from related parties	9,636,927	—	—	—
Other current and non-current assets	33,100,697	(56,811,099)	(694,994,714)	(106,512,600)
Payables to related parties	(1,514,984)	—	—	—
Risk assurance liabilities	43,628,637	52,484,356	198,608,646	30,438,107
Other current and non-current liabilities	(168,733,602)	(4,124,725)	52,774,440	8,088,036
Net cash provided by/ (used in) operating activities	184,786,337	422,895,235	(621,612,202)	(95,266,239)
Cash flows from investing activities:				
Repayments of finance lease receivables	1,114,545,502	1,358,838,393	1,839,778,206	281,958,346
Origination of finance lease receivables	(2,024,328,766)	(2,071,721,858)	(2,256,358,577)	(345,802,081)
Proceeds from collection of short-term consumer financing receivables	—	25,140,348	12,248,145	1,877,110
Origination of short-term consumer financing receivables	—	(39,716,300)	—	—
Proceeds from redemption of short-term investments	2,618,890,000	7,295,012,425	1,020,672,114	156,424,845
Proceeds from available for sale financial assets	—	179,351,253	12,182,947	1,867,118
Proceeds from third party loans	—	26,743,400	—	—
Proceeds from long-term investments	—	90,521,295	—	—
Disposal of equity method investments	143,770	100,000	—	—
Proceeds from repayments of loans from shareholders	114,000,000	—	—	—
Disposal of property and equipment and intangible assets	—	8,475	31,840	4,880
Purchase of short-term investments	(2,821,444,000)	(7,613,350,054)	(1,116,757,156)	(171,150,522)
Purchase of long-term investments	(100,000,000)	(406,307,000)	—	—
Purchases of property and equipment and intangible assets	(14,389,405)	(43,025,999)	(5,360,566)	(821,543)
Step acquisitions, net of cash acquired	(108,361,071)	—	—	—
Origination of loans provided to related parties and third-parties	(417,703,400)	—	—	—
Net cash used in investing activities	(1,638,647,370)	(1,198,405,622)	(493,563,047)	(75,641,847)

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Cash flows from financing activities:				
Proceeds from contribution of shareholders net of incremental costs	3,307,348,769	—	—	—
Proceeds from initial public offering, net of issuance costs	272,145,213	—	—	—
Payment to repurchase treasury shares	—	(20,638,881)	(49,219,318)	(7,543,190)
Liquidation of subsidiaries	—	(574,212)	(467,433)	(71,637)
Proceeds from borrowings	616,245,628	2,695,357,550	3,369,740,855	516,435,380
Proceeds from exercise of share options	—	—	6,693,716	1,025,857
Purchase of subsidiary’s equity from non-controlling interest holder	(4,488,906)	—	(24,144,000)	(3,700,230)
Repayment of borrowings	(73,057,135)	(1,686,482,435)	(3,416,211,500)	(523,557,318)
Distribution to shareholders	(27,063,546)	(257,114,132)	(267,214,749)	(40,952,452)
Net cash provided by/ (used in) financing activities	4,091,130,023	730,547,890	(380,822,429)	(58,363,590)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	110,476,450	11,516,258	(36,093,321)	(5,531,543)
Net increase (decrease) in cash, cash equivalents and restricted cash	2,747,745,440	(33,446,239)	(1,532,090,999)	(234,803,219)
Cash, cash equivalents and restricted cash at beginning of the year	1,132,683,522	3,880,428,962	3,846,982,723	589,575,896
Cash, cash equivalents and restricted cash at the end of the year	3,880,428,962	3,846,982,723	2,314,891,724	354,772,677
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets				
Cash and cash equivalents	2,912,901,189	2,002,314,688	1,426,899,576	218,681,927
Restricted cash – current	298,900,155	970,993,759	9,693,008	1,485,518
Restricted cash – non-current	668,627,618	873,674,276	878,299,140	134,605,232
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	3,880,428,962	3,846,982,723	2,314,891,724	354,772,677
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	130,531,099	78,203,607	101,878,045	15,613,493
Cash paid for interest	3,776,454	154,589,750	139,952,105	21,448,598

The accompanying notes are an integral part of these consolidated financial statements.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION

Cango Inc. (the “Company”, and where appropriate, the term “Company” also refers to its subsidiaries, variable interest entity, and subsidiaries of the variable interest entity as a whole) is an exempt company incorporated in the Cayman Islands with limited liability under the laws of the Cayman Islands on October 9, 2017. The Company, through its subsidiaries, variable interest entity (“VIE”), and subsidiaries of the VIE, are principally engaged in the provision of automotive financing facilitation, automotive transaction facilitation, and aftermarket service facilitation in the People’s Republic of China (the “PRC”). The Company conducts its primary business operations through its VIE and the subsidiaries of the VIE.

As of December 31, 2020, the Company’s subsidiaries and VIE are as follows:

<u>Entity</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Percentage of legal ownership by the Company</u>	<u>Principal activities</u>
<u>Subsidiaries</u>				
Cango Group Limited (“Cango HK”)	October 31, 2017	Hong Kong (“HK”)	100%	Investment holding
Express Group Development Limited (“Express Limited”)	June 30, 2016	HK	100%	Investment holding
Can Gu Long (Shanghai) Information Technology Consultation Service Co., Ltd. (“Cangulong” or Wholly Foreign Owned Enterprise “WFOE”)	January 25, 2018	PRC	100%	Investment holding
<u>VIE</u>				
Shanghai Cango Investment and Management Consultation Service Co., Ltd. (“Shanghai Cango”)	August 30, 2010	PRC	Nil	Provision of automotive financing facilitation, automotive transaction facilitation and aftermarket service facilitation.

On October 31, 2017, the Company incorporated a wholly-owned subsidiary, Cango HK, in Hong Kong. On January 25, 2018, the Company incorporated another wholly-owned subsidiary, Cangulong, in the PRC. On March 23, 2018, Shanghai Cango signed a series of contractual agreements with Cangulong and its nominee shareholders (the “VIE Agreements”).

The Company operates its business primarily through the VIE and the subsidiaries of the VIE. The Company, through the WFOE, entered into power of attorney and an exclusive option agreement with the nominee shareholders of the VIE, that gave the WFOE the power to direct the activities that most significantly affect the economic performance of the VIE and to acquire the equity interests in the VIE when permitted by the PRC laws, respectively. Certain exclusive agreements have been entered into with the VIE through the WFOE, which obligate the WFOE to absorb a majority of the risk of loss from the VIE’s activities and entitles the WFOE to receive a majority of their residual returns. In addition, the Company entered into a share pledge agreement for equity interests in the VIE held by the nominee shareholders of the VIE. On March 22, 2018, Cango Inc. agreed to provide unlimited financial support to the VIE for its operations. As a result of the VIE Agreements, the Company exercises effective control over the significant business activities of the VIE through the WFOE and provides unlimited financial support to the VIE. Therefore Cango Inc. is determined to be most closely associated with the VIE within the group of related parties and was considered to be the Primary Beneficiary of the VIE.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION - CONTINUED

Despite the lack of technical majority ownership, the Company has effective control of the VIE through the VIE Agreements and a parent-subsidiary relationship exists between the Company and the VIE. Through the VIE Agreements, the shareholders of the VIE effectively assigned all of their voting rights underlying their equity interest in the VIE to the Company.

In addition, through the other exclusive agreements, which consist of exclusive option agreement, exclusive business cooperation agreement, and equity pledge agreement, the Company, through its wholly-owned subsidiaries in the PRC, have the right to receive economic benefits from the VIE that potentially could be significant to the VIE. Lastly, through the financial support undertaking letter, the Company has the obligation to absorb losses of the VIE that could potentially be significant to the VIE. Therefore, the Company is considered the primary beneficiary of the VIE and consolidates the VIE and its consolidated subsidiaries as required by SEC Regulation S-X Rule 3A-02 and ASC 810, *Consolidation* (“ASC 810”).

The following is a summary of the VIE Agreements:

(1) Power of Attorney Agreements:

Pursuant to the power of attorney signed between Shanghai Cango’s nominee shareholders and the WFOE, each nominee shareholder irrevocably appointed the WFOE as its attorney-in-fact to exercise on each nominee shareholder’s behalf any and all rights that each nominee shareholder has in respect of its equity interest in Shanghai Cango (including but not limited to executing the exclusive right to purchase agreements, the voting rights and the right to appoint directors and executive officers of Shanghai Cango). This agreement is effective and irrevocable as long as the nominee shareholder remains a shareholder of Shanghai Cango.

(2) Exclusive Option Agreement:

Pursuant to the exclusive option agreement entered into between Shanghai Cango’s nominee shareholders and the WFOE, the nominee shareholders irrevocably granted the WFOE a call option to request the nominee shareholders to transfer or sell any part or all of its equity interests in the VIE, or any or all of the assets of the VIE, to the WFOE, or their designees. The purchase price of the equity interests in the VIE is equal to the minimum price required by PRC law. Without the WFOE’s prior written consent, the VIE and its nominee shareholders cannot amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests and provide any loans or guarantees. The nominee shareholders cannot request any dividends or other form of assets. If dividends or other form of assets were distributed, the nominee shareholders are required to transfer all received distribution to the WFOE or their designees. This agreement is not terminated until all of the equity interest of the VIE is transferred to the WFOE or the person(s) designated by the WFOE. None of the nominee shareholders have the right to terminate or revoke the agreement under any circumstance unless otherwise regulated by law.

(3) Exclusive Business Cooperation Agreement:

Pursuant to the exclusive business cooperation agreement entered into by the WFOE and Shanghai Cango and its subsidiaries, the WFOE provides exclusive technical support and consulting services in return for fees based on 100% of Shanghai Cango’s profit before tax, which is adjustable at the sole discretion of the WFOE. Without the WFOE’s consent, the VIE and its subsidiaries cannot procure services from any third-party or enter into similar service arrangements with any other third-party, other than the WFOE.

In addition, the consolidated VIE granted the WFOE an exclusive right to purchase any or all of the business or assets of each of the profitable consolidated VIE and its subsidiaries at the lowest price permitted under PRC law. This agreement is irrevocable or can only be unilaterally revoked/amended by the WFOE.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION - CONTINUED

(4) Equity Pledge Agreement

Pursuant to the equity pledge agreements, the nominee shareholders representing over 90% of the VIE’s equity interest have pledged all of their respective equity interests in the VIE to the WFOE as continuing first priority security interest to guarantee the nominee shareholders’ and the VIE’s obligations under the power of attorney agreement, the exclusive option agreement and the exclusive business cooperation agreement. The WFOE is entitled to collect dividends during the effective period of the share pledge unless it agrees otherwise in writing. If Shanghai Cango or any of the nominee shareholder breaches its contractual obligations, the WFOE will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of Shanghai Cango in accordance with PRC law. None of the nominee shareholders may assign or transfer to any third-party, distribute dividends and create or cause any security interest and any liability in whatsoever form to be created on, all or any part of the equity interests it holds in the VIE without the written consent of the WFOE. This agreement is not terminated until all of the technical support and consulting and service fees are fully paid under the exclusive business cooperation agreement and all of Shanghai Cango’ obligations have been terminated under the other controlling agreements. The Company will register the equity pledge with the relevant office of the administration for industry and commerce in accordance with the PRC Property Rights Law.

In March 2018, the following supplementary agreements were entered into:

1) Financial support undertaking letter

Pursuant to the financial support undertaking letter, the Company is obligated to provide unlimited financial support to the VIE, to the extent permissible under the applicable PRC laws and regulations. The Company will not request repayment of the loans or borrowings if the VIE Entity or its shareholders do not have sufficient funds or are unable to repay.

2) Resolutions of the sole director of Cango Inc. (the “Resolutions”)

The sole director resolved that each of Mr. Xiaojun Zhang, Mr. Jiayuan Lin and Mr. Yongyi Zhang (each, an “Authorized Officer”) shall cause the WFOE to exercise its rights under the power of attorney agreements and the exclusive option agreement when the Authorized Officer determines that such exercise is in the best interests of the Company and the WFOE to do so.

In the opinion of the Company’s legal counsel, (i) the ownership structure of the PRC subsidiaries and the VIE, does not violate applicable PRC laws and regulations; (ii) each of the VIE Agreements is valid, binding and enforceable in accordance with its terms and applicable PRC laws or regulations and will not violate applicable PRC laws or regulations; (iii) the financial support letter issued by the Company to the VIE, dated on March 22, 2018 and the resolutions contained in the Resolutions are valid in accordance with the articles of association of the Company and Cayman Islands Law.

However, uncertainties in the PRC legal system could cause the Company’s current ownership structure to be found in violation of existing and/or future PRC laws or regulations and could limit the Company’s ability to enforce its rights under these contractual arrangements. Furthermore, the nominee shareholders of the VIE may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the contractual agreements with the VIE.

In addition, if the current structure or any of the contractual arrangements is found to be in violation of any existing or future PRC laws or regulations, the Company could be subject to penalties, which could include, but not be limited to, revocation of business and operating licenses, discontinuing or restricting business operations, restricting the Company’s right to collect revenues, temporary or permanent blocking of the Company’s internet platforms, restructuring of the Company’s operations, imposition of additional conditions or requirements with which the Company may not be able to comply, or other regulatory or enforcement actions against the Company that could be harmful to its business. The imposition of any of these or other penalties could have a material adverse effect on the Company’s ability to conduct its business.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION - CONTINUED

Except for all assets of the consolidated trusts, there was no other pledge or collateralization of the VIE’s assets. Creditors of the VIE have no recourse to the general credit of the Company, who is the primary beneficiary of the VIE, through its 100% controlled subsidiary Cangulong. The Company has not provided any financial or other support that it was not previously contractually required to provide to the VIE during the periods presented. The table sets forth the assets and liabilities of the VIE’s included in the Company’s consolidated balance sheets:

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$
Cash and cash equivalents	1,781,925,125	1,003,740,459	153,829,955
Other current assets	2,364,681,520	3,194,408,176	489,564,471
Total current assets	4,146,606,645	4,198,148,635	643,394,426
Finance lease receivables—non-current	1,448,958,373	1,454,499,864	222,911,857
Other non-current assets	1,469,144,834	1,754,832,407	268,939,831
Total non-current assets	2,918,103,207	3,209,332,271	491,851,688
Total assets	7,064,709,852	7,407,480,906	1,135,246,114
Short-term debts	1,439,749,760	355,816,940	54,531,332
Other current liabilities	1,468,827,161	2,088,849,541	320,130,199
Total current liabilities	2,908,576,921	2,444,666,481	374,661,531
Long-term debts	301,667,717	977,791,191	149,853,056
Other non-current liabilities	34,126,296	17,394,154	2,665,771
Total non-current liabilities	335,794,013	995,185,345	152,518,827
Total liabilities	3,244,370,934	3,439,851,826	527,180,358

The VIE’s net asset balance was RMB3,820,338,918 and RMB3,967,629,080 (US\$608,065,756) as of December 31, 2019 and 2020.

The table sets forth the results of operations of the VIE included in the Company’s consolidated statements of comprehensive income:

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$
Revenues	1,091,431,610	1,440,068,825	2,052,431,752	314,548,928
Net income	298,973,421	353,558,726	399,366,632	61,205,614

The table sets forth the cash flows of the VIE included in the Company’s consolidated statements of cash flows:

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$
Net cash provided by/ (used in) operating activities	129,762,525	405,810,921	(626,884,394)	(96,074,237)
Net cash used in investing activities	(1,474,496,320)	(782,481,722)	(81,038,760)	(12,419,733)
Net cash provided by/ (used in) financing activities	2,253,082,674	1,004,220,135	(71,082,260)	(10,893,833)

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

1. ORGANIZATION - CONTINUED

Consolidated trusts, asset-backed securities and asset backed note (“Trusts, ABSs and ABN”)

Since December 2017, the Company established several Trusts, ABSs and ABN to invest in automobile backed loans and consumer loans. The Company contributed capital to these Trusts, ABSs and ABN, determined the investment strategy, and is the sole beneficiary of these Trusts, ABSs and ABN. In 2020, one of the trusts was settled, and one of the ABSs and the ABN was redeemed.

These Trusts, ABSs and ABN are administered by third-party trust companies and security companies as the trustees. The Company consolidates these Trusts, ABSs and ABN as it has the power to direct the activities that most significantly impacts their economic performance, the right to share residual profits and the obligation to absorb losses of these Trusts, ABSs and ABN that potentially could be significant to the Company.

The table sets forth the assets and liabilities of the consolidated Trusts, ABSs and ABN included in the Company’s consolidated balance sheets:

	As of December 31,		
	2019 RMB	2020 RMB	US\$
Finance lease receivables – current	556,315,579	605,746,128	92,834,656
Other current assets	88,136,131	224,309	34,377
Total current assets	644,451,710	605,970,437	92,869,033
Finance lease receivable – non-current	389,666,998	101,206,823	15,510,624
Total non-current assets	389,666,998	101,206,823	15,510,624
Total assets	1,034,118,708	707,177,260	108,379,657
Long-term debts—current	539,153,392	401,761,874	61,572,701
Other current liabilities	60,727,770	59,187	9,071
Total current liabilities	599,881,162	401,821,061	61,581,772
Long-term borrowings	79,884,342	—	—
Total non-current liabilities	79,884,342	—	—
Total liabilities	679,765,504	401,821,061	61,581,772

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with the generally accepted accounting principles of the United States (“U.S. GAAP”).

Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIE, and the subsidiaries of the VIE. All inter-company transactions and balances have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Company’s consolidated financial statements include, but are not limited to revenue recognition, allowance for accounts receivable, allowance for financing receivables, allowance for finance lease receivables, fair value of risk assurance liabilities, allowance for contract assets, share-based compensation, valuation allowance for deferred tax assets, assessment of recoverability of the Company’s property and equipment, intangible assets, uncertain tax positions, goodwill and fair value of investments among others. Management bases these estimates on its historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

Revenue recognition

The Company’s revenues are derived principally from 1) loan facilitation services and post-origination administrative services, 2) finance lease services, 3) after-market services facilitation services, 4) automobile trading income, and 5) other income.

On January 1, 2019, the Company adopted ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective method applied to those contracts which were not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company’s historic accounting under ASC 605, *Revenue recognition*. The cumulative effect of adopting ASC 606 resulted in an increase of RMB17,585,853 to the opening balance of retained earnings at January 1, 2019. Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the Company’s customers, in an amount that reflects the consideration that the Company expects to be entitled to in exchange for those goods or services, net of value-added tax (“VAT”). The Company determines revenue recognition through the following steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loan facilitation services and post-origination administrative services (“PAS”)

The Company entered into non-risk assured and risk assured facilitation arrangements with various financial institutions. Borrowers that pass the Company’s credit assessment are recommended to the financial institutions. Once the borrower is independently approved by the financial institutions, the financial institutions will directly fund the borrower’s automobile purchase and the Company will earn a loan facilitation fee from the financial institution and borrowers. The Company will provide PAS, such as tracking through telematics devices in the automobiles; and sending short-message-service (“SMS”) payment reminder to borrowers, throughout the terms of the loans. In addition, for certain arrangements, the Company provides risk assurance on the principal and accrued interest repayments of the defaulted loans to various financial institutions. The Company determined that it is not the legal lender or legal borrower in the loan origination and repayment process, respectively. Therefore, the Company does not record loan receivables and payable arising from the loans between borrowers and financial institutions on its consolidated balance sheet.

The Company determines its customers to be both the financial institutions and borrowers. The Company considers the loan facilitation service, PAS and risk assurance services as separate services, of which the risk assurance service is accounted for in accordance ASC 460, Guarantees (“ASC 460”).

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised services to the customer, net of value-added tax. The transaction price includes variable service fees which are contingent on the borrower making timely repayments. Variable consideration is estimated using the expected value method based on historical default rate, current and forecasted borrower repayment trends and is limited to the amount of variable consideration that is probable not to be reversed in future periods. As a result, the estimation of variable consideration involves significant judgement. The Company makes the assessment of whether the estimate of variable consideration is constrained. Any subsequent changes in the transaction price will be allocated to the performance obligations on the same basis as at contract inception.

The Company first allocates the transaction price to the risk assurance liabilities at fair value in accordance with ASC 460. The remaining transaction price is then allocated to the loan facilitation services and PAS on a relative standalone selling price basis. The Company does not have observable price for the loan facilitation services and PAS because the services are not provided separately. As a result, the estimation of standalone selling price involves significant judgement. The Company estimates the standalone selling price of the loan facilitation and PAS using the expected cost plus a margin approach.

The fee allocated to loan facilitation is recognized as revenue upon each successful loan facilitation, while the fee allocated to PAS are deferred and amortized over the period of the loan on a straight-line method as the PAS services are performed. PAS revenue recognized in the years ended December 31, 2018, 2019 and 2020 is RMB93,873,096, RMB86,251,498 and RMB73,775,464 (US\$11,306,585), respectively.

The loan facilitation services and PAS are recorded as Loan facilitation income and other related income in the consolidated statements of comprehensive income.

Finance lease services

The Company provides automobile finance lease services to individual borrowers. Financing lease income is recognized using the effective interest method. Initial direct cost received and direct origination costs are generally deferred and amortized over the term of the related finance lease receivables using the effective interest method and are removed from the consolidated balance sheets when the related finance lease receivables are sold, charged off or paid in full.

After-market services income

The Company provides after-market services to car buyers which mainly include insurance facilitation service and car recovery and disposal services.

After-market insurance facilitation service mainly involve facilitating personal accident insurance and automobile insurance, and offering anti-theft package services. The Company first allocates the fair value of indemnification service under ASC 460 and then allocates the remaining consideration to the after-market insurance facilitation service. After-market insurance facilitation service income is recognized at the point of time facilitation services are performed

After-market car recovery and disposal services income mainly include delinquent asset management income for car recovery and disposal services, which is recognized at the point of time when the company delivers the relevant service.

CANGO INC.

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FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***Automobile trading transaction***

The Company provides car trading services as a principal in which the Company purchases vehicles from suppliers which are vehicle manufacturers or their first-tier car dealerships and sells the vehicles to customers which are other car dealerships. The revenue generated from sale of vehicles is recognized at a point in time when the control of the vehicles is transferred from the Company to the customers when the vehicles are delivered and their titles are passed on to the customers.

Revenue recognition under ASC 605

Before January 1, 2019, the Company considers the loan facilitation services and the PAS as a multiple element revenue arrangement under ASC 605, and the financial institutions as the sole customer in the arrangement. The Company first allocates the consideration to the risk assurance liability equaling to the fair value of the risk assurance liability if the Company provides a risk assurance obligation to the financial institution in the arrangement. The remaining consideration is then allocated to the loan facilitation services and PAS. The Company does not have vendor specific objective evidence (“VSOE”) of selling price for the loan facilitation services and PAS because the Company does not provide loan facilitation services or PAS on a standalone basis. There is also no third-party evidence of the prices charged by third-party service providers when such services are sold separately. As a result, the Company uses its best estimate of selling prices of loan facilitation services and PAS as the basis of revenue allocation. Nevertheless, the amount allocated to the delivered loan facilitation services is limited to the amount that is not contingent on the delivery of the undelivered PAS in accordance with ASC 605-25. The loan facilitation services and PAS are recorded as revenue in the consolidated statements of comprehensive income.

For loan facilitation services, PAS and delinquent asset management fees, the Company recognizes revenue when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured, in accordance with ASC 605. As collectability is uncertain in relation to the remaining loan facilitation services income due to the potential default by borrowers such that they are not considered to be fixed or determinable, the remaining loan facilitation service income is recorded on a cash basis.

Business Combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC 805, *Business Combinations* (“ASC 805”). The purchase method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities the Company acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and non-controlling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Goodwill

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of an acquired business. The Company’s goodwill at December 31, 2020 was related to its acquisition of Shanghai Chejia. In accordance with ASC 350, *Goodwill and Other Intangible Assets*, (“ASC 350”), recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

The Company early adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, (“ASU 2017-04”), which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. Under the new guidance, if a reporting unit’s carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. Fair value is primarily determined by computing the future discounted cash flows expected to be generated by the reporting unit.

Pursuant to ASC 350, the Company elected to perform a qualitative assessment for the reporting unit of Cango Inc. As of December 31, 2020, the Company completed its annual impairment test for goodwill that has arisen out of the acquisition of Shanghai Chejia. The Company evaluated all relevant factors including, but not limited to, macroeconomic conditions, industry and market conditions and financial performance of Cango Inc. The Company weighed all factors in their entirety and concluded that it was not more-likely-than-not the fair value was less than the carrying amount of the reporting unit, and further impairment testing on goodwill was unnecessary.

Cost of revenues

Cost of revenues consist primarily of commissions paid to car dealers who refer borrowers to the Company, employee compensation costs, cost of vehicles, leasing interest expense, cost of telematics devices installed in automobiles and third-party outsourcing fees for vehicle repossession services. Cost of revenues are expensed as incurred when the corresponding services have been provided.

Foreign currency translation and transactions

The functional currency of the Company, Cango HK and Express Limited is the US\$. The Company’s subsidiaries, VIE, and subsidiaries of the VIE with operations in the PRC adopted RMB as their functional currencies. The determination of the respective functional currency is based on the criteria stated in ASC 830, *Foreign Currency Matters* (“ASC 830”). The Company uses RMB as its reporting currency. The financial statements of the Company, Cango HK and Express Limited are translated into RMB using the exchange rate as of the balance sheet date for assets and liabilities and average exchange rate for the year for income and expense items. Translation gains and losses are recorded in accumulated other comprehensive retained earnings (deficit), as a component of shareholders’ equity (deficit).

Transactions in currencies other than the functional currency are measured and recorded in the functional currency at the exchange rate prevailing on the transaction date.

Monetary assets and liabilities denominated in currencies other than the functional currency are re-measured into the functional currency at the rates of exchange prevailing at the balance sheet dates. Transaction gains and losses are recognized in the consolidated statements of comprehensive income during the period or year in which they occur.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and cash equivalents

Cash and cash equivalents primarily consist of cash, investments in interest bearing demand deposit accounts, time deposits, and highly liquid investments with original maturities of three months or less from the date of purchase and are stated at cost which approximates their fair value. All cash and cash equivalents are unrestricted as to withdrawal and use.

Restricted cash

Restricted cash represents cash deposited with the respective financial institution customers as (i) general collaboration deposits, (ii) guarantee deposits for risk assured arrangements and (iii) collateral for short-term borrowings.

Financial institutions make corresponding deductions from the guarantee deposits for risk assured arrangements, when borrowers are delinquent in their installment repayments and/or when loans are required to be purchased by the Company after a specified delinquency period. Such restricted cash is not available to fund the general liquidity needs of the Company.

The balance of restricted cash deposited as general collaboration deposits was RMB35,207,876 and RMB140,785,028 (US\$21,576,250) as of December 31, 2019 and 2020, respectively. The balance of restricted cash deposited as guarantee deposits for risk assured arrangements was RMB843,586,508 and RMB747,207,120 (US\$114,514,500) as of December 31, 2019 and 2020, respectively. The balance of restricted cash deposited as collateral for short-term borrowings was RMB965,873,651 and RMB nil (US\$nil) as of December 31, 2019 and 2020, respectively.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. An allowance for doubtful accounts is recorded in the period when loss is probable based on many factors, including the age of the balance, the customer’s payment history and current economic trends. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. Bad debts are written off after all collection efforts have been exhausted.

Contract Assets and Liabilities

Contract assets represents the Company’s right to consideration in exchange for loan facilitation services that the Company has transferred to the customer before payment is due. The Company assesses contract assets for impairment in accordance with ASC 310, *Receivables*.

Contract assets as of December 31, 2019 and 2020 was RMB32,343,780 and RMB645,992,745 (US\$99,002,720), respectively. The remaining unsatisfied performance obligations as of December 31, 2019 and 2020, pertaining to post-origination services amounted to RMB42,166,362 and RMB38,381,520 (US\$5,882,225), respectively.

Contract liabilities represents the Company’s obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recorded in customer advances.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***Short-term investments***

All highly liquid investments such as time deposits and structured deposits with original maturities of greater than three months, but less than twelve months, are classified as short-term investments. Investments such as wealth management products expected to be realized in cash during the next twelve months are also included in short-term investments.

The Company accounts for short-term debt investments in accordance with ASC Topic 320 (“ASC 320”), Investments — Debt Securities, and short-term equity investments in accordance with ASC Topic 321 (“ASC 321”), Investments — Equity Securities. The Company classifies the short-term debt investments as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320.

Debt securities that the Company has the positive intent and the ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. Such debt securities include time deposits, structured deposits and wealth management products in financial institutions.

Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading debt securities are included in earnings. Such debt securities include wealth management products.

Debt investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Realized gains or losses are included in earnings during the period in which the gain or loss is realized.

In 2020, equity securities include Li Auto Inc, a listed company, with readily determinable fair value with unrealized holding gains and losses included in earnings.

Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method and are reflected in earnings during the period in which gains or losses are realized. Realized and unrealized gains and losses and interest income from the short-term investments are recorded in “Interest and investment gain, net” and “Fair value change of equity investment” respectively in the consolidated statements of comprehensive income.

Derivative Instruments

In 2019, the Company entered into cross-currency interest rate swap contracts that allow the Company to buy US Dollars at a pre-determined exchange rate and repay US Dollars borrowing with fixed interest rate on maturity date. The total notional amount of the outstanding cross-currency interest rate swap contract was RMB311.6 million and RMB nil (US\$ nil) as of December 31, 2019 and 2020, respectively. The cross-currency interest rate swap contracts matured in July 2020. The Company did not have derivative instruments as of December 31, 2020.

The Company accounts for the cross-currency interest rate swap contract in accordance with ASC 815, *Derivatives and hedging*. The cross-currency interest rate swap contract was measured at fair value and classified as accrued expenses and other current liabilities within the condensed consolidated balance sheets. The Company estimates the fair value of the cross-currency interest rate swap contract at each reporting period using a discounted cashflow model by using future net expected cashflow discounted at foreign exchange forward adjusted market yield. Any change in the fair value of the cross-currency interest rate swap contracts are recorded as other expense in the condensed consolidated statement of comprehensive income for each period until the contract matures, is terminated, or sold. During the years ended December 31, 2019 and 2020, the unrealized losses recognized in the comprehensive income related to the cross-currency interest rate swap contract were RMB3.3 million and RMB nil (US\$nil), respectively.

The cross-currency interest rate swap contract may expose the Company to credit risk to the extent that the counterparty may be unable to meet the terms of the arrangement. The Company mitigates this credit risk by transacting with major financial institutions with high credit ratings. The Company did not pledge cash collateral for its cross-currency interest rate swap contract as of December 31, 2019 and 2020.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***Short-term consumer financing receivables***

Short-term consumer financing receivables represents payments due from borrowers that utilize the Company’s credit services. Short-term consumer financing receivables is recorded at amortized cost, net of allowance for consumer financing receivables. Deferred origination costs are netted against revenue and amortized over the financing term using the effective interest method.

Allowance for short-term consumer financing receivables

The allowance for short-term consumer financing receivables is calculated using the probability of default (“PD”) Loss given default (“LGD”) model based on pools of loans with similar risk characteristics, including product type to arrive at an estimate of incurred losses in the portfolio. Allowance is calculated by multiplying the PD by LGD for each pool. The PD and LGD model takes into consideration factors of historical delinquency migration to loss and loss given default. The Company adjusts the allowance that is determined by the PD and LGD model for various qualitative factors i.e. gross-domestic product rates, per capita disposable income, interest rates and consumer price indexes and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Short-term consumer financing receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when the Company determined the balance to be uncollectable. In general, the Company considers short-term consumer financing receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) loans are 180 days past due.

Long-term Investments

The Company’s long-term investments consist of equity investments with and equity investments without readily determinable fair value and available-for-sale debt investments.

Equity investments with and without readily determinable fair value

Prior to adopting ASC Topic 321, *Investments—Equity Securities* (“ASC 321”) on January 1, 2019, the Company carries at cost its investments in investees which do not have readily determinable fair value and the Company does not have significant influence in accordance with ASC 325-20, *Cost Method Investments*, (“ASC 325-20”). The Company only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company’s share of earnings since its investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment’s cost over its fair value at the balance sheet date for which the assessment is made. The fair value would then become the new cost basis of investment.

Subsequent to the Company’s adoption of ASC 321 on January 1, 2019, the cumulative effect of unrealized gains and losses of available-for-sale equity securities before the adoption was not material. Pursuant to ASC 321, equity investments, except for those accounted for under the equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”) to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Company elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

Pursuant to ASC 321, for equity investments with readily determinable fair value measured at fair value with changes in fair value recorded in earnings, the Company does not assess whether those securities are impaired. For those equity investments without readily determinable fair value that the Company elects to use the measurement alternative, the Company makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the entity has to estimate the investment’s fair value in accordance with the principles of ASC 820. If the fair value is less than the investment’s carrying value, the entity has to recognize an impairment loss in net income equal to the difference between the carrying value and fair value.

The Company has reclassified its long-term investments in Li Auto Inc. to short-term investments as of December 31, 2020 due to its ability to convert the investments into cash to fund current operations from the removal of investor lock-up restriction. See Note 3 “Short-Term Investments”.

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(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***Available-for-sale debt securities***

Subordinated trust units that do not have the following characteristics: (1) be of high credit quality and (2) cannot be contractually prepaid or settled such that the investor would not recover substantially all of its recorded investment, are debt securities and represents a beneficial interest that are accounted for in accordance with ASC 320 *Investments—Debt and Equity Securities* and ASC 325-40 *Investments—other, beneficial interests in securitized financial assets*. The subordinated trust units are classified as available-for-sale debt securities and measured subsequently at fair value. The Company recognizes the accretable yield as interest income over the life of the contractual life of the subordinated trust units using the effective yield method. In order to determine the interest recorded in each period, the Company estimates the timing and amount of future cash flows attributable to the beneficial interests over the estimated life of the trust. The Company reevaluates the estimated future cash flows periodically to determine whether an adjustment to the accretable yield is required or if an other-than-temporary impairment should be recorded. An other-than-temporary impairment is considered to have occurred when, based on current information and events, there has been an adverse change in the timing or amount of cash flows expected to be collected or when the Company intends to sell the securities or it is required to sell the securities before recovery of its amortized cost basis.

Equity method investments

The Company uses the equity method to account for equity investments over which it has significant influence but does not own a majority equity interest or otherwise control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The share of earnings or losses of the investee are recognized in the consolidated statements of comprehensive income. Equity method adjustments include the company's proportionate share of investee income or loss and other adjustments required by the equity method.

The Company assesses its equity investment for other than temporary impairment by considering relevant information including, but not limited to, current economic and market conditions, the operating performance of the investee, including current earning trends, the general market conditions in the investee's industry or geographic area, factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and cash burn rate and other company-specific information.

Risk assurance liabilities

The Company provides risk assurance to various financial institution customers. The risk assurance liability requires the Company to either make delinquent installment repayments or purchase the loans after a specified period on an individual loan basis. The risk assurance liability is exempted from being accounted for as a derivative in accordance with ASC 815-10-15-58.

The risk assurance liability consists of two components. The Company's obligation to stand ready to make delinquent payments or to purchase the loan over the term of the arrangement (the non-contingent aspect) is accounted for in accordance with ASC 460 *Guarantees* (“ASC 460”). The contingent obligation relating to the contingent loss arising from the arrangement is accounted for in accordance with ASC 450 *Contingencies* (“ASC 450”). At inception, the Company recognizes the non-contingent aspect of the risk assurance liability at fair value, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction.

Subsequent to the initial recognition, the non-contingent aspect of the risk assurance liability is reduced over the term of the arrangement as the Company is released from its stand ready obligation on a loan-by-loan basis based on the borrower's repayment of the loan principal. The contingent loss arising from the obligation to make future payments is recognized when borrower default is probable and the amount of loss is estimable. The Company considers the underlying risk profile including delinquency status, overdue period, and historical loss experience when assessing the probability of contingent loss. Borrowers are grouped based on common risk characteristics, such as product type. The Company measured contingent loss based on the future payout of the arrangement estimated using the historical default rates of a portfolio of similar loans less the fair value of the recoverable collateral.

CANGO INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020****(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED*****Financing receivables***

The Company records financing receivables in accordance with ASC 310-30 *Loan and debt securities acquired with deteriorated credit quality* when it exercises its obligation to purchase a delinquent loan under the risk assurance obligation and obtains legal title to any subsequent payments made by the borrower and the repossessed asset. Financing receivables are recorded at their purchase price, which is presumed to be the financing receivables' fair value. The Company subsequently records an allowance for financing receivables, if based on current information and events, it is probable that the Company is unable to collect all of the expected cash flows at acquisition, plus additional cash flows expected to be collected arising from changes in estimates after acquisition.

The Company derecognizes financing receivables upon physical possession of the repossessed asset, which includes the transfer of title through the completion of regulatory proceedings. The Company derecognizes the financing receivables and records the repossessed asset at its estimated fair value, less cost to sell, as other non-current assets on the consolidated balance sheet. Any difference between the estimated fair value of the repossessed asset and the financing receivables is recognized in the consolidated statements of comprehensive income. The Company derecognized financing receivables of RMB30,633,497 and RMB66,742,161 (US\$10,228,684) for the year ended December 31, 2019 and 2020, respectively.

Repossessed assets are initially recognized at the fair value of the asset less estimated costs to sell. Any gain or loss from the disposal of the repossessed assets are recognized in the consolidated statements of comprehensive income.

Finance lease receivables

Finance lease receivables are carried at amortized cost comprising of original financing lease and direct costs, net of unearned income and allowance for finance lease receivables. An account is considered delinquent if a substantial portion of a scheduled payment has not been received by the date such payment was contractually due. Finance lease receivables are collateralized by vehicle titles and, subject to local laws, the Company generally has the right to repossess the vehicle in the event the borrower defaults on the payment terms of the contract. Finance lease receivables are divided among pools based on common risk characteristics, such as product and delinquent status. These pools are collectively evaluated for impairment by management judgment. The allowance is aggregated for each of the pools. Provisions for finance lease receivables are charged to operations in amounts sufficient to maintain the allowance for finance lease receivables at levels considered adequate to cover probable losses inherent in our finance lease receivables.

Impaired finance lease receivables

A finance lease receivable is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the terms of the contract. Factors such as payment history, compliance with terms and conditions of the underlying financing lease agreement and other subjective factors related to the financial stability of the borrower are considered when determining whether finance lease receivables are impaired.

Nonaccrual policy

The Company does not accrue lease income or interest income on finance lease principals, short-term consumer financing receivables and financing receivables that are considered impaired or delinquent. A corresponding allowance is determined under ASC 450-20 and allocated accordingly. Accrual of financing lease income and interest income are suspended on accounts that are delinquent, accounts in bankruptcy and accounts in repossession. Payments received on non-accrual finance lease receivables, loans and financing receivables are first applied to any fees due, then to any interest due and, finally, any remaining amounts received are recorded to principal. Interest accrual resumes once an account has received payments bringing the delinquency status to non-delinquent.

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(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allowance for finance lease receivables

The allowance for finance lease receivables is calculated using the PD LGD model based on pools of finance lease receivables with similar risk characteristics, including product type to arrive at an estimate of incurred losses in the portfolio. Allowance is calculated by multiplying the PD by LGD for each pool. The PD and LGD model takes into consideration factors of historical delinquency migration to loss and loss given default. The Company adjusts the allowance that is determined by the PD and LGD model for various qualitative factors i.e. gross-domestic product rates, per capita disposable income, interest rates and consumer price indexes and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Finance lease receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when the Company has determined the balance is uncollectable. In general, the Company considers finance fee receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) the amount remained outstanding 180 days past due and therefore deemed uncollectible; (iv) the collateral are physically repossessed.

Treasury shares

The Company accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury shares account on the consolidated balance sheets.

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method with the residual value based on the estimated useful lives of the class of asset, which range as follows:

Category	Estimated Useful Life	Estimated Residual Value
Office and electronic equipment	3-5 years	5%
Motor vehicles	4 years	5%
Leasehold improvements	Over the shorter of the expected life of leasehold improvements or the lease term	Nil

Costs associated with the repair and maintenance of property and equipment are expensed as incurred.

Intangible assets

Intangible assets that have definite useful life primarily include purchased computer software. These intangible assets are amortized on a straight-line basis over their estimated useful lives of the respective assets, which vary from 6-10 years. The weighted average amortization period for the computer software is 9.41 years and 9.26 years as of December 31, 2019 and 2020, respectively.

Intangible assets that have indefinite useful life primarily include a purchased Insurance Brokerage License as of December 31, 2020. The Company evaluates indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment.

Non-controlling interests

For the Company’s majority-owned subsidiaries and consolidated VIEs, a non-controlling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company. Consolidated net income attributed to the Company’s shareholders excludes the net income attributable to non-controlling interests. The cumulative results of operations attributed to non-controlling interests are recorded in the Company’s consolidated balance sheets.

Research and development

Research and development expenses are primarily incurred in the development of new services, new features, and general improvement of the Company’s technology infrastructure to support its business operations. Research and development costs are expensed as incurred unless such costs qualify for capitalization as software development costs. In order to qualify for capitalization, (i) the preliminary project should be completed, (ii) management has committed to funding the project and it is probable that the project will be completed and the software will be used to perform the function intended, and (iii) it will result in significant additional functionality in the Company’s services. No research and development costs were capitalized during any year presented as the Company has not met all of the necessary capitalization requirements.

CANGO INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020****(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED*****Impairment of long-lived assets and intangible assets***

Long-lived assets including intangible assets with definite lives, are assessed for impairment, whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment* (“ASC 360”). The Company measures the carrying amount of long-lived assets against the estimated undiscounted future cash flows associated with it. Impairment exists when the estimated undiscounted future cash flows are less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. No impairment loss was recognized for the years ended December 31, 2018, 2019 and 2020, respectively.

Intangible assets with indefinite lives, are assessed annually for impairment and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired in accordance with ASC 350, *Intangibles – Goodwill and Other* (“ASC 350”). Impairment exists when the fair value is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. No impairment loss was recognized for the years ended December 31, 2018, 2019 and 2020, respectively.

Employee defined contribution plan

Full time employees of the Company 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 Company make contributions to the government for these benefits based on a certain percentage of the employee’s salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amount that was expensed as incurred was RMB59,407,321, RMB66,584,898 and RMB35,451,168 (US\$5,433,129) for the years ended December 31, 2018, 2019 and 2020, respectively.

Value added taxes (“VAT”)

Since its inception, Shanghai Cango was certified as a general VAT taxpayer whose applicable tax rate was 6%. The subsidiaries of the VIE are all general VAT taxpayers, except for Shanghai Wangtian Investment Co., Ltd., which is certified as small-scale VAT taxpayers with an applicable tax rate of 3%. Shanghai Cango Automobile Sales Co., Ltd and Shanghai Cango Electronic Technology Co., Ltd. (“Electronic Technology”)’s applicable tax rate is 16% and 6% before April 1, 2019 and 13% and 6% after April 1, 2019, respectively. VAT is reported as a deduction to revenue when incurred and amounted to RMB100,646,868, RMB130,059,457 and RMB207,266,214 (US\$31,764,937) for the years ended December 31, 2018, 2019 and 2020, respectively. 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 accrued expenses and other current liabilities on the consolidated balance sheets.

Income taxes

The Company recognizes income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. The Company records a valuation allowance against the amount of deferred tax assets that it determines is not more-likely-than-not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company applies the provisions of ASC 740, *Income Taxes* (“ASC 740”), in accounting for uncertainty in income taxes. ASC 740 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2018, 2019 and 2020, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

Segment information

In accordance with ASC 280-10, *Segment Reporting: Overall* (“ASC 280-10”), the Company’s chief operating decision maker (“CODM”) has been identified as the Chief Executive Officer, who makes resource allocation decisions and assesses performance based on the consolidated financial results as a whole. As a result, the Company has only one reportable segment. As the Company’s long-lived assets and revenue are substantially located in and derived from the PRC, no geographical segment is presented.

CANGO INC.

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FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Comprehensive income

Comprehensive income is defined as the changes in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. For each of the periods presented, the Company’s comprehensive income includes net income, foreign currency translation adjustments and unrealized (losses) gains on available-for-sale securities and is presented in the consolidated statements of comprehensive income.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are recognized on a straight-line basis over the lease term. Certain operating lease agreements contain rent holidays. Rent holidays are considered in determining the straight-line rent expense to be recorded over the lease term.

Fair value measurements

Accounting guidance defines fair value as 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 Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

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

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

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

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

Financial assets and liabilities of the Company primarily consist of cash and cash equivalents, restricted cash, finance lease receivables, financing receivables, short-term consumer financing receivables, other current assets, short-term and long-term debts, income tax payable, accrued expenses and other liabilities. The carrying amounts of these financial instruments, except for non-current portion of restricted cash, non-current finance lease receivables and long-term debts, approximate their fair values because of their generally short maturities. The carrying amount of non-current portion of restricted cash, non-current finance lease receivables and long-term debts approximates their fair values due to the fact that the related interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable maturities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Share-based compensation

The Company accounts for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation* (“ASC 718”).

The Company recognizes the compensation costs net of estimated forfeitures using the straight-line method, over the applicable vesting period for each separately vesting portion of the award. The estimate of forfeitures is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures is recognized through a cumulative catch-up adjustment in the period of change and also impact the amount of share-based compensation expense to be recognized in future periods.

A change in any of the terms or conditions of share options is accounted for as a modification of share options. The Company calculates the incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Company recognizes incremental compensation cost in the period the modification occurred. For unvested options, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. The Company, with the assistance of an independent third-party valuation firm, determined the fair value of share-based awards granted to employees.

Earnings per share

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC 260, *Earnings Per Share* (“ASC 260”), using the two-class method. Under the provisions of ASC 260, basic earnings per share is computed using the weighted average number of ordinary shares outstanding during the period except that it does not include unvested ordinary shares subject to repurchase or cancellation.

Diluted earnings per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options and restricted shares subject to forfeiture. The dilutive effect of outstanding stock options and restricted shares is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted earnings per Class A ordinary share assumes the conversion of Class B ordinary shares to Class A ordinary shares, while diluted earnings per Class B ordinary share does not assume the conversion of such shares.

The liquidation and dividend rights of the holders of the Company’s Class A and Class B ordinary shares are identical, except with respect to voting rights. As a result, and in accordance with ASC 260, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B ordinary shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B ordinary shares is assumed in the computation of the diluted earnings per Class A ordinary share, the undistributed earnings are equal to net income for that computation.

For the purposes of calculating the Company’s basic and diluted earnings per Class A and Class B ordinary shares, the ordinary shares relating to the options that were exercised are assumed to have been outstanding from the date of exercise of such options.

Government grants

Government grants include cash subsidies received by the Company’s entities in the PRC from local governments as incentives for investing in certain local districts and are typically granted based on the amount of investment made by the Company in these local districts. Such grants allow the Company full discretion in utilizing the funds and are used by the Company for general corporate purposes. The Company recognize government grants as other income when cash is received from the government.

Convenience translation for financial statements presentation

Translations of amounts from RMB into US\$ for the convenience of the reader have been calculated at the exchange rate of RMB6.5250 per US\$1.00 on December 31, 2020, as published on the website of the United States Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at such rate.

CANGO INC.

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(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impact of COVID-19

In the first half of 2020, the COVID-19 pandemic severely disrupted the domestic automotive industry. The Company’s loan facilitated income and other related income declined while the M1+ and M3+ overdue ratio rose compared to the prior period. Since the third quarter of the year ended 2020, China’s auto market has regained momentum with gradual recovery and the Company’s financial and operational performance rebounded.

There are still uncertainties of COVID-19’s future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of a second wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition especially for SMEs, almost all of which are beyond the Company’s control. As a result, certain of the Company’s estimates and assumptions, including the revenue recognition, allowance for accounts receivable, allowance for financing receivables, allowance for finance lease receivables and fair value of risk assurance liabilities, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to the Company’s current estimates in future periods.

Significant risks and uncertainties

Currency convertibility risk

Substantially all of the Company’s businesses are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People’s Bank of China (“PBOC”) or other authorized financial institution at exchange rates quoted by PBOC. Approval of foreign currency payments by the PBOC or other regulatory institutions requires submitting a payment application form together with suppliers’ invoices and signed contracts.

Concentration of credit risk

Financial assets that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term and long-term investments, financing receivables, finance lease receivables and accounts receivable.

The Company places its cash and cash equivalents and short-term investments, with reputable financial institutions which have high-credit ratings. There has been no recent history of default related to these financial institutions.

The Company manages credit risk of accounts receivable through ongoing monitoring of the outstanding balances.

Concentration of customers

Approximately 60.2%, 39.1%, and 36.5% of revenues were derived from provision of services to two financial institutions for the years ended December 31, 2018, 2019 and 2020, respectively.

Interest rate risk

The Company is exposed to interest rate risk on its interest-bearing assets and liabilities. As part of its asset and liability risk management, the Company reviews and takes appropriate steps, including using derivative financial instruments to economically manage its interest rate exposures on its interest-bearing assets and liabilities. The Company has not been exposed to material risks due to changes in market interest rates.

Borrower default risk

The Company entered into certain risk assured facilitation arrangements whereby it is obligated to purchase delinquent loans from financial institutions. The Company’s operating results could be adversely affected by a significant increase in the overall borrower default rate for loans facilitated under such arrangements. The Company manages its borrowers’ default risk by performing credit checks on each prospective borrower and ongoing monitoring of the Company overall loan portfolio facilitated through the risk assured facilitation arrangement.

Business and economic risk

The Company believes that changes in any of the following areas could have a material adverse effect on the Company’s future financial position, results of operations or cash flows; changes in the overall demand for services; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in certain strategic relationships; regulatory considerations and risks associated with the Company’s ability to attract employees necessary to support its growth and risks related to outbreaks of epidemics, such as COVID-19. The Company’s operations could also be adversely affected by significant political, regulatory, economic and social uncertainties in the PRC.

CANGO INC.

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(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***Significant risks and uncertainties - continued****Comparative Information*

Certain items in the consolidated financial statements have been adjusted to conform with the current year’s presentation to facilitate comparison.

Recently Adopted Accounting Pronouncements*Simplifying the Test for Goodwill Impairment*

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, as opposed to determining an implied fair value in Step two to measure the impairment loss. The Company adopted this standard update effective January 1, 2019. The standard update did not have a material impact on the Company’s financial statements.

Fair Value Measurement

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* (“ASU 2018-13”), which modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including, among other changes, the consideration of costs and benefits when evaluating disclosure requirements. The Company adopted this standard update effective January 1, 2020. The standard update did not have a material impact on the Company’s financial statements.

Compensation—Stock Compensation

In June 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting to simplify the accounting for share-based payments to nonemployees* (“ASU 2018-07”), which largely aligns the accounting for share-based payment awards issued to employees and nonemployees by expanding the scope of Topic 718 to apply to nonemployee share-based transactions, as long as the transaction is not effectively a form of financing. The Company adopted this standard update effective January 1, 2020. The standard update did not have a material impact on the Company’s financial statements.

Recent accounting pronouncements

As a company with less than US\$1.07 billion in revenue for the last fiscal year, the Company qualifies as an “emerging growth company”, or EGC, pursuant to the Jumpstart Our Business Startups Act of 2012, as amended, or the JOBS Act. An EGC may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include a provision that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. The Company will take advantage of the extended transition period.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. In accordance with ASU 2019-10, *Effective Dates to Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. Leases (Topic 842) is effective for the Company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. In May 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which defers the effective date of lease of the Company to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application continues to be permitted. The Company is currently in the process of evaluating and believes the most significant change will be related to the recognition of right-of-use assets and lease liabilities on the Company’s consolidated balance sheet for certain in-scope operating leases. The Company does not expect any material impact on net assets and the consolidated statement of comprehensive income as a result of adopting the new standard.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***Recent accounting pronouncements-continued***

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments and respective amendments* (“ASU 2016-13”). ASU 2016-13 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 Company’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments —Credit Losses* (“ASU 2018-19”), which amends ASU 2016-13 to clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20, and instead, impairment of such receivables should be accounted for in accordance with Topic 842, Leases. ASU 2016-13 and ASU 2018-19 are effective for fiscal years and interim periods within those years beginning after December 15, 2022, with early adoption permitted as of the fiscal years beginning after December 15, 2018. An entity will apply the amendments in these updates through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In February 2020, the FASB issued ASU 2020-02, *Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*. For Credit Losses (Topic 326), it added the accounting for loan losses by registrants engaged in lending activities subject to FASB ASC Topic 326. This staff interpretation applies to all registrants that are creditors in loan transactions that, individually or in the aggregate, have a material effect on the registrant’s financial condition. The Company is currently in the process of evaluating and believes the most significant change will be related to the recognition of addition allowance for accounts receivable, finance lease receivables, short-term consumer financing receivables and financing receivables, and provision for risk assurance liabilities and plans to adopt the Topic 326 for fiscal years and interim periods within those years beginning after December 15, 2022.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes—Income Taxes (Topic 740)*. The amendments in this Update simplify the accounting for income taxes by removing the some of the exceptions and simplify the accounting for income taxes. The ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted, including adoption in any interim period for which financial statements have not yet been made available for issuance. The Company is evaluating the effects, if any, of the adoption of these guidance on the Company’s financial position, results of operations and cash flows.

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3. SHORT-TERM INVESTMENTS

As of December 31, 2020, short-term investments include as follows: (a) wealth management products mainly issued by Industrial Bank Co., Ltd. and Haixia Bank of Fujian, which are redeemable by the Company at any time; (b) time deposit mainly in Bank of Shanghai (Hong Kong) Limited, Bank of Shanghai Co., Ltd. and Haixia Bank of Fujian ranging from three months to one year; (c) structured deposit in Jiangnan Rural Commercial Bank ranging from three months to one year; and (d) investment in Li Auto Inc. (“Li Auto”). The wealth management products are primarily invested in debt securities issued by the PRC government, corporate debt securities and central bank bills. The Company valued the short-term available-for-sale products based on the quoted subscription/redemption price published by the relevant banks.

As of December 31, 2019 and 2020, the realized reinvestment from fair value changes on wealth management products was RMB1,388,953 and RMB36,573 (US\$5,605), respectively.

As of December 31, 2019, subsequent to the adoption of ASC 321, the investment in Li Auto was accounted for as an equity investment at fair value, using the measurement alternative, given Li Auto was still a privately-held company at that time. The investment was recorded in long-term investment. In July 2020, Li Auto completed its initial public offering on the Nasdaq Global Select Market (“Li Auto IPO”) and the shares held by the Company were converted to Class A ordinary shares of Li Auto. Upon the completion of Li Auto IPO, the Company reclassified this investment from equity investments without readily determinable fair value to equity investments with readily determinable fair value. This security is valued using the market approach based on the quoted prices in active markets at the reporting date. The Company classifies the valuation techniques that use these inputs as Level 1 of fair value measurements.

The Company has reclassified its long-term investments in Li Auto Inc. to short-term investments as of December 31, 2020 due to its ability to convert the investments into cash to fund current operations from the removal of investor lock-up restriction.

	Cost basis RMB	Unrealized Gains RMB	Balance RMB	Balance USD
Equity investment:				
As of December 31, 2019	506,307,000	41,581,818	547,888,818	80,695,301
As of December 31, 2020	495,750,000	3,190,793,199	3,686,543,199	564,987,463

Changes in fair value due to the fluctuation of the share price are recognized in fair value change of equity investment while changes in fair value due to the fluctuation of the foreign exchange rate are recognized in other comprehensive income.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable and the related allowance for doubtful accounts are summarized as follows:

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$
Accounts receivable	148,562,946	141,594,170	21,700,256
Less: Allowance for doubtful accounts	—	—	—
Accounts receivable, net	<u>148,562,946</u>	<u>141,594,170</u>	<u>21,700,256</u>

No amounts have been written off during the years ended December 31, 2018, 2019 and 2020, respectively.

5. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2020 were as follows:

	Shanghai Chejia	
	RMB	US\$
Balance at December 31, 2018	<u>145,063,857</u>	<u>21,098,663</u>
Balance at December 31, 2019	<u>145,063,857</u>	<u>20,837,119</u>
Balance at December 31, 2020	<u>145,063,857</u>	<u>22,232,009</u>

CANGO INC.

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6. FINANCE LEASE RECEIVABLES, NET

6.1 Finance lease receivables consists of the following:

	As of December 31,		
	2019 RMB	2020 RMB	US\$
Finance lease receivables	3,484,919,078	3,848,670,074	589,834,494
Add: unamortized initial direct costs	420,074	390,796	59,893
Less: unearned income	(356,209,820)	(335,437,061)	(51,407,979)
Less: allowance for finance lease receivables—collective	(19,088,837)	(23,726,420)	(3,636,233)
Total finance lease receivables, net	3,110,040,495	3,489,897,389	534,850,175
Finance lease receivables—current	1,661,082,122	2,035,397,525	311,938,318
Finance lease receivables—non-current	1,448,958,373	1,454,499,864	222,911,857

6.2 The following table presents the future minimum lease payments to be received:

	Contractual maturities				
	2021 RMB	2022 RMB	2023 RMB	Thereafter RMB	Total RMB
Finance lease receivables	2,154,625,037	1,163,138,961	524,223,451	6,682,625	3,848,670,074
	US\$	US\$	US\$	US\$	US\$
Finance lease receivables	330,210,734	178,258,844	80,340,759	1,024,157	589,834,494

6.3 The following table presents the aging of finance lease receivables principal as of December 31, 2019 and 2020:

	As of December 31,		
	2019 RMB	2020 RMB	US\$
Aging of finance lease receivables principal:			
Current	3,043,067,511	3,423,777,666	524,716,884
1-30 days past due	70,311,661	68,919,540	10,562,382
31-60 days past due	4,672,808	7,515,295	1,151,769
61-90 days past due	2,821,449	5,260,689	806,236
91-120 days past due	3,500,436	3,678,200	563,709
121-150 days past due	1,977,944	2,570,865	394,002
151-180 days past due	2,777,523	1,901,554	291,426
	3,129,129,332	3,513,623,809	538,486,408

6.4 Movement of allowance for finance lease receivables is as follows:

	As of December 31,		
	2019 RMB	2020 RMB	US\$
Balance at the beginning of the year	13,544,836	19,088,837	2,925,492
Additions	18,855,252	36,282,049	5,560,468
Charge-offs	(13,311,251)	(31,644,466)	(4,849,727)
Balance at the end of the year	19,088,837	23,726,420	3,636,233

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7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Prepayments for vehicles	4,250,400	403,116,119	61,780,248
Vehicles and telematics devices	6,790,158	54,725,824	8,387,099
Accrued input value-added tax	4,382,079	26,623,275	4,080,195
Deposits held by third-parties	5,737,012	18,171,682	2,784,932
Prepaid expenses	7,768,447	14,331,513	2,196,400
Other receivables from third parties	55,506,906	10,461,282	1,603,262
Interest receivables	15,348,204	4,889,508	749,350
Loan to suppliers	3,415,680	1,573,800	241,195
Others	14,246,396	24,467,956	3,749,880
	<u>117,445,282</u>	<u>558,360,959</u>	<u>85,572,561</u>

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Finite-lived intangible asset:			
Software	3,641,588	4,164,764	638,278
Less: Accumulated amortization	(1,974,849)	(2,368,396)	(362,973)
Total finite-lived intangible asset	<u>1,666,739</u>	<u>1,796,368</u>	<u>275,305</u>
Indefinite-lived intangible asset:			
License*	43,091,503	43,091,503	6,604,062
Total infinite-lived intangible asset	<u>43,091,503</u>	<u>43,091,503</u>	<u>6,604,062</u>
	<u>44,758,242</u>	<u>44,887,871</u>	<u>6,879,367</u>

Amortization expenses of finite-lived intangible asset for the years ended December 31, 2018, 2019 and 2020 were RMB320,790, RMB 496,072 and RMB393,547 (US\$60,314), respectively.

The estimated useful life of the intangible assets are 6-10 years. The estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	As of December 31,				
	2021	2022	2023	2024	2025
	RMB	RMB	RMB	RMB	RMB
Software	284,240	248,998	200,631	194,840	194,840
	US\$	US\$	US\$	US\$	US\$
Software	43,562	38,161	30,748	29,860	29,860

* The Company acquired Fushun Insurance Brokerage Co., Ltd in 2019. The acquisition met the “substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets” criteria and is not considered a business combination in accordance with ASC Topic 805.

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9. SHORT-TERM AND LONG-TERM DEBTS

Short-term debts consist of the following:

Name	Fixed annual rate (%)	Term	As of December 31, 2019	
			RMB	US\$
Short-term borrowings	2.51%-7.00%	1-12 months	1,439,749,760	

Name	Fixed annual rate (%)	Term	As of December 31, 2020	
			RMB	US\$
Short-term borrowings	3.40%-6.80%	1-12 months	355,816,940	54,531,332

Long-term debts consist of the following:

Name	Fixed annual rate (%)	Term	As of December 31, 2019	
			RMB	US\$
Securitization debt payables (i)	5.06%-5.20%	15-18 months	619,037,733	
Co-financing debt payables (ii)	6.50%-6.60%	24-36 months	446,048,773	
Long-term borrowings	4.75%	36 months	100,000,000	
			1,165,086,506	

Name	Fixed annual rate (%)	Term	As of December 31, 2020	
			RMB	US\$
Securitization debt payables (i)	4.73%-6.00%	18-20 months	401,761,874	61,572,701
Co-financing debt payables (ii)	5.5%-6.60%	24-36 months	1,697,757,491	260,192,719
Long-term borrowings	4.75%-6.00%	36 months	107,055,556	16,406,982
			2,206,574,921	338,172,402

- (i) In the ordinary course of business, the Company transfers finance leases to certain Funding Partners. The Company periodically securitizes its finance lease receivables through the transfer of those assets to a securitization vehicle. The securitization vehicle then issues debt securities to third-party investors and the company held all subordinated tranches. However, in accordance with ASC 860 *Transfers and Servicing the finance leases* (“ASC 860”), the finance lease receivables are not derecognized upon transfer as they are not legally isolated. Hence, the Company continues to report the transferred finance leases in the consolidated balance sheets and accounts for the proceeds from the transfer as a secured borrowing with pledge of collateral. As of December 31, 2019 and 2020, balance of securitization debt payables amounting to RMB619,037,734 and RMB401,761,874 (US\$61,572,701) are derived from such finance lease transfer.
- (ii) The Company provides consumer loans to borrowers through commercial banks. The Company is required to make scheduled payments to the commercial banks regardless of borrower repayments.

Financing lease receivables amounting to RMB1,735,094,721 and RMB1,083,014,892 (US\$165,979,294) were collateralized for the Company’s short-term and long-term debts, as of December 31, 2019 and 2020, respectively.

The weighted average interest rate for the outstanding debts was approximately 5.09% and 5.92% as of December 31, 2019 and 2020.

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9. SHORT-TERM AND LONG-TERM DEBTS - CONTINUED

The following table sets forth the contractual obligations of long-term debts—non-current which has not included impact of discount of time value as of December 31, 2019 and 2020:

	Payment due by period			Total
	Less than 1 year	1 - 2 years	2 -3 years	
As of December 31, 2019 (RMB)				
Long-term debts – non-current	17,460,042	263,444,828	48,346,303	329,251,173
As of December 31, 2020 (RMB)				
Long-term debts – non-current	62,363,881	663,503,529	368,390,299	1,094,257,709
As of December 31, 2020 (US\$)				
Long-term debts – non-current	9,557,683	101,686,365	56,458,283	167,702,331

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Customer advances	67,098,949	136,893,906	20,979,909
Payable to employees	42,469,850	66,058,774	10,123,950
Payable to dealers	29,666,154	37,610,651	5,764,084
Other tax payables	8,210,599	26,851,725	4,115,207
Deposit due to third-parties	21,026,154	19,105,683	2,928,074
Payable to suppliers	8,233,432	5,090,553	780,161
Accrued professional service fees	4,380,000	4,630,000	709,579
Interest payable	2,890,110	1,237,131	189,599
Amount due to third-parties	59,764,366	—	—
Derivative financial liability	3,289,676	—	—
Others	31,660,944	27,255,779	4,177,131
	<u>278,690,234</u>	<u>324,734,202</u>	<u>49,767,694</u>

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11. RISK ASSURANCE LIABILITIES

The movement of risk assurance liabilities during the years ended December 31, 2019 and 2020 are as follows:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Balance at the beginning of the year	173,210,363	259,952,473	39,839,459
Fair value of risk assurance liabilities upon the inception of new loans	166,911,451	348,921,174	53,474,509
Performed risk assurance liabilities	(114,427,095)	(150,312,528)	(23,036,402)
Net loss on risk assurance liabilities	34,257,754	2,268,180	347,614
Balance at the end of the year	<u>259,952,473</u>	<u>460,829,299</u>	<u>70,625,180</u>

The maximum potential undiscounted future payment which the Company would be required to make under its risk assurance obligation is RMB17,806,442,758 and RMB14,540,230,427 (US\$2,228,387,805) as of December 31, 2019 and 2020, respectively. The term of the risk assurance obligation ranges from 12 months to 60 months, as of December 31, 2019 and 2020.

12. COST OF REVENUE

Cost of revenue consists of the following:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Cost of vehicle	6,596,813	11,176,116	619,227,148	94,900,712
Leasing interest expense	21,223,412	116,965,519	132,322,922	20,279,375
Commission to car dealerships	203,845,998	158,100,562	117,985,878	18,082,127
Staff incentive	71,538,976	98,173,090	84,046,881	12,880,748
Staff cost	59,630,520	72,999,170	73,975,397	11,337,226
Others	67,223,318	81,852,960	70,562,523	10,814,180
	<u>430,059,037</u>	<u>539,267,417</u>	<u>1,098,120,749</u>	<u>168,294,368</u>

13. OTHER INCOME, NET

Other income consists of the following:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Government subsidy	33,061,272	36,769,550	35,888,591	5,500,167
Others	(360,526)	4,530,914	13,250,746	2,030,766
	<u>32,700,746</u>	<u>41,300,464</u>	<u>49,139,337</u>	<u>7,530,933</u>

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14. INCOME TAXES

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Additionally, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Under the Hong Kong tax laws, subsidiaries in Hong Kong are subject to the Hong Kong profits tax rate at 16.5% and they may be exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

China

The Enterprise Income Tax Law (the “EIT Law”) of the PRC includes a provision specifying that legal entities organized outside PRC will be considered residents for Chinese income tax purposes if their place of effective management or control is within PRC. If legal entities organized outside PRC were considered residents for Chinese income tax purpose, they would become subject to the EIT Law on their worldwide income. This would cause any income from legal entities organized outside PRC earned to be subject to PRC’s 25% EIT. The Implementation Rules to the EIT Law provides that non-resident legal entities will be considered as PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, and properties, etc. reside within PRC.

The VIE’s subsidiaries domiciled in the PRC are subject to 25% statutory income tax rate in the periods presented.

Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that the legal entities organized outside PRC should be characterized as PRC residents for EIT Law purposes.

In accordance with EIT Law, a qualified “High and New Technology Enterprise” (“HNTE”) is eligible for a preferential tax rate of 15%. An entity must file required supporting documents with the tax authority and ensure fulfillment of the relevant criteria before being granted the preferential rate. Upon expiration of the certificate, an entity can further re-apply for the preferential rate. One of the PRC subsidiaries, Shanghai Cango, was granted HNTE certificate on April 2019 for the years ended December 31, 2018, 2019 and 2020. The Company is in the progress of renewing the HNTE certificate license as of December 31, 2020. Another PRC subsidiary, Fushun Insurance Brokerage Co. Ltd. was granted HNTE certificate on March 2021 for the years ended December 31, 2020, 2021 and 2022. The impact of the concessionary rate on the group’s effective tax rate reconciliation is noted in the section below.

Under the current EIT Law, capital gains derived from PRC are subject to a 10% PRC withholding tax.

The Company’s profit (loss) before income taxes consist of:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Cayman Islands	6,053,039	(5,359,465)	3,309,525,351	507,206,950
Hong Kong	5,855,270	18,479,616	(14,414,430)	(2,209,108)
China	384,098,580	474,699,082	448,162,790	68,683,952
Total profit before income taxes	396,006,889	487,819,233	3,743,273,711	573,681,794

The current and deferred component of income tax expenses which were substantially attributable to the Company’s PRC subsidiaries, VIE and subsidiaries of the VIE, are as follows:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Current income tax expense	121,777,474	91,994,704	121,701,686	18,651,600
Deferred income tax (benefit) expense	(32,694,920)	(9,034,211)	248,151,964	38,030,952
Total income tax expense	89,082,554	82,960,493	369,853,650	56,682,552

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14. INCOME TAXES - CONTINUED

The principal components of the deferred tax assets and liabilities are as follows:

	For the years ended December 31,		
	2019 RMB	2020 RMB	US\$
Non-current deferred tax assets			
Risk assurance liabilities	87,316,488	223,500,138	34,252,895
Accrued expense	9,778	—	—
Provision for credit losses	21,087,186	55,584,637	8,518,718
Customer advances	4,818,590	5,687,968	871,719
Donation	—	125,000	19,157
Net operating loss carry-forward	9,561,155	65,558,135	10,047,224
Less: valuation allowance	(9,561,155)	(7,148,961)	(1,095,626)
Non-current deferred tax assets, net	113,232,042	343,306,917	52,614,087
Non-current deferred tax liabilities			
Acquisition of insurance brokerage license	(10,724,126)	(10,724,126)	(1,643,544)
Unrealized gain on long-term investment	(11,009,130)	(11,009,130)	(1,687,223)
Contract assets	(1,605,803)	(162,308,288)	(24,874,833)
Unrealized tax on capital gains	(1,554,966)	—	—
Withholding tax	—	(319,079,320)	(48,901,045)
Non-current deferred tax liabilities	(24,894,025)	(503,120,864)	(77,106,645)

The Company had deferred tax assets related to net operating loss carry forwards of RMB262,232,539 (US\$40,188,895) from its subsidiaries in China, which can be carried forward to offset taxable income. The net operating loss of these subsidiaries will expire in years 2021 to 2025 if not utilized, respectively.

The Company operates through its WFOE and VIE and evaluates the potential realization of deferred tax assets on an entity basis. The Company recorded valuation allowance against deferred tax assets of those entities that were in cumulative financial loss and are not forecasting profits in the near future as of December 31, 2019 and 2020. In making such determination, the Company also evaluated a variety of factors including the Company’s operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

Reconciliation between the income tax expense computed by applying the PRC tax rate to income before the provision of income taxes and the actual provision for income taxes is as follows:

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Income before provision of income tax	396,006,889	487,819,233	3,743,273,711	573,681,794
PRC statutory income tax rate	25%	25%	25%	25%
Income tax at statutory tax rate	99,001,722	121,954,808	935,818,428	143,420,449
Tax rate differential	(2,010,958)	(36,157,163)	(852,831,321)	(130,702,118)
Over-accrued EIT for previous years	—	(39,664,283)	—	—
Impact of tax rate change	—	36,367,754	(35,511,678)	(5,442,403)
Utilization of net operating loss carry-forward	—	(9,708,887)	—	—
Non-deductible expenses	7,970,647	22,277,780	19,219,052	2,945,449
Research and development super-deduction	(12,520,141)	(9,961,515)	(10,970,775)	(1,681,345)
Non-taxable income	(2,497,058)	(3,587,542)	(982,266)	(150,539)
Change in valuation allowance	(861,658)	1,439,541	(2,412,144)	(369,677)
Withholding tax	—	—	317,524,354	48,662,736
Income tax expenses	89,082,554	82,960,493	369,853,650	56,682,552

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14. INCOME TAXES - CONTINUED

The Company did not record any outside basis tax differences related to its investments in the subsidiaries in the PRC because management asserted to indefinitely reinvest the undistributed earnings of the subsidiaries in the PRC. The cumulative amount of the temporary differences in respect of investments in foreign subsidiaries is RMB1,550 million (US\$238 million) as of December 31, 2020. Upon repatriation of the foreign subsidiaries and the VIE’s earnings, in the form of dividends or otherwise, the Company would be subject to withholding income tax.

Unrecognized Tax Benefit

As of December 31, 2019 and 2020, the Company concluded that there was no significant impacts from tax uncertainty in its consolidated financial results. The Company does not expect the amount of unrecognized tax benefits would increase significantly in the next 12 months. In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company’s PRC subsidiaries. Accordingly, the PRC subsidiaries’ tax years of 2015 through 2020 remain open to examination by the respective tax authorities. The Company may also be subject to the examinations of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

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15. EARNINGS PER SHARE (“EPS”)

Basic earnings per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of ordinary shares and potential ordinary shares outstanding during the period under the treasury stock method. Upon completion of the Company’s IPO on July 26, 2018, all redeemable convertible preferred shares were converted into 169,239,905 Class A ordinary shares. Basic and diluted EPS are the same for each class of ordinary share because they are entitled to the same liquidation and dividend rights.

The following table sets forth the computation of basic and diluted net income per share for the years ended December 31, 2018, 2019 and 2020:

Basic EPS:	For the years ended December 31,							
	2018		2019		2020			
	Class A Ordinary Shares	Class B Ordinary Shares	Class A Ordinary Shares	Class B Ordinary Shares	Class A Ordinary Shares		Class B Ordinary Shares	
	RMB	RMB	RMB	RMB	RMB	US\$	RMB	US\$
Numerator:								
Net income attributable to Cango Inc’s shareholders	216,674,865	86,017,200	289,646,757	101,267,135	2,513,009,017	385,135,482	856,508,830	131,265,720
Denominator:								
Number of shares used for Basic EPS computation (millions of shares)	199.83	79.33	224.07	78.34	224.10	224.10	76.38	76.38
Basic EPS	1.08	1.08	1.29	1.29	11.21	1.72	11.21	1.72

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15. EARNINGS PER SHARE (“EPS”) - CONTINUED

Diluted EPS:	For the years ended December 31,							
	2018		2019		2020			
	Class A Ordinary Shares RMB	Class B Ordinary Shares RMB	Class A Ordinary Shares RMB	Class B Ordinary Shares RMB	Class A Ordinary Shares		Class B Ordinary Shares	
				RMB	US\$	RMB	US\$	
Numerator:								
Net income attributable to ordinary shareholders	217,201,601	85,490,464	289,937,256	100,976,636	2,522,647,912	386,612,707	846,869,935	129,788,495
Reallocation of net income as a result of conversion of Class B to Class A shares	85,490,464	—	100,976,636	—	846,869,935	129,788,495	—	—
Net income attributable to ordinary shareholders for diluted EPS	302,692,065	85,490,464	390,913,892	100,976,636	3,369,517,847	516,401,202	846,869,935	129,788,495
Denominator: (millions of shares)								
Number of shares used for basic EPS computation	199.83	79.33	224.07	78.34	224.10	224.10	76.38	76.38
Weighted average effect of dilutive securities:								
Conversion of Class B to Class A ordinary shares	79.33	—	78.34	—	76.38	76.38	—	—
Adjustments for dilutive share options	1.72	—	0.87	—	3.42	3.42	—	—
Number of shares used for diluted EPS computation	280.88	79.33	303.28	78.34	303.90	303.90	76.38	76.38
Diluted EPS	1.08	1.08	1.29	1.29	11.09	1.70	11.09	1.70
Earnings per share – ADS:								
Denominator used for earnings per ADS – basic	99.92		112.04		112.05	112.05		
Denominator used for earnings per ADS – diluted	140.44		151.64		151.95	151.95		
Earnings per ADS – basic	2.17		2.59		22.43	3.44		
Earnings per ADS – diluted	2.16		2.58		22.18	3.40		

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16. FAIR VALUE MEASUREMENTS

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis

In accordance with ASC 820, the Company measures short-term investment, equity investments with readily determinable fair value and derivatives instruments on a recurring basis. The fair value of time deposits is determined based on the prevailing interest rates in the market. The fair value of wealth management products is measured based on observable market prices, when available. If observable market prices are not available, the Company determines fair value based using a market-based discount rate and considers recent market transactions, experience with similar securities, and current business conditions. In 2020, upon the completion of Li Auto IPO, the fair value of the Company’s investment in the equity security of publicly listed company is measured using quoted market prices. In 2019, long-term investment includes investment in Li Auto which was then a private company, which does not have readily determinable market values and is measured on a non-recurring basis. The Company uses a combination of valuation methodologies, including market and income approaches based on the Company’s best estimate, which is determined by using information including but not limited to the pricing of recent rounds of financing, future cash flow forecasts, liquidity factors and selection of the comparable companies.

The Company did not transfer any assets in or out of level 3 during the years ended December 31, 2019 and 2020.

The following table summarizes the Company’s financial assets measured and recorded at fair value on recurring basis as of December 31, 2019:

	As of December 31, 2019			Total RMB
	Active market (Level 1)	Observable input (Level 2)	Non-observable input (Level 3)	
	RMB	RMB	RMB	
Asset:				
Short-term investment	—	597,265,740	—	597,265,740
Liability:				
Derivative financial liability	—	3,289,676	—	3,289,676

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16. FAIR VALUE MEASUREMENTS - CONTINUED

The following table summarizes the Company’s financial assets and financial liabilities measured and recorded at fair value on recurring basis as of December 31, 2020:

	As of December 31, 2020			Total RMB
	Active market (Level 1)	Observable input (Level 2)	Non-observable input (Level 3)	
	RMB	RMB	RMB	
Asset:				
Short-term investment	3,686,543,199	655,813,413	—	4,342,356,612

	As of December 31, 2020			Total US\$
	Active market (Level 1)	Observable input (Level 2)	Non-observable input (Level 3)	
	US\$	US\$	US\$	
Assets:				
Short-term investment	564,987,463	100,507,803	—	665,495,266

Assets measured at fair value on a non-recurring basis

For equity securities accounted for under the measurement alternative, when there are observable price changes in orderly transactions for identical or similar investments of the same issuer, the investments are re-measured to fair value (Note 3). The non-recurring fair value measurements to the carrying amount of an investment usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Company. These non-recurring fair value measurements were measured as of the observable transaction dates. The valuation methodologies involved require management to use the observable transaction price at the transaction date and other unobservable inputs (level 3) such as volatility of comparable companies and probability of exit events as it relates to liquidation and redemption preferences.

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(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

17. RELATED PARTY BALANCES AND TRANSACTIONS

Name of related parties	Relationship with the Company
Mr. Jiayuan Lin	Principal shareholder and Chief Executive Officer of the Company
Shanghai Wangjin Investment Management Co., Ltd.	Company controlled by principal shareholder of the Company
Shanghai Chejia(i)	The Company’s equity method investee

- (i) In September 2018, the Company acquired the remaining 50% of the equity interest in Shanghai Chejia for RMB206,000,000, and Shanghai Chejia became the wholly-owned subsidiary of the Company. Therefore, Shanghai Chejia was deemed to be a related party for the nine months ended September 30, 2018.

Details of related party transactions for the years ended December 31, 2018, 2019 and 2020 are as follows:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Revenue				
Shanghai Chejia	14,928,349	—	—	—
Interest income				
Mr. Jiayuan Lin	784,805	—	—	—
Shanghai Wangjin Investment Management Co., Ltd	430,260	—	—	—
Shanghai Chejia	2,199,730	—	—	—
	3,414,795	—	—	—

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

18. SHARE-BASED COMPENSATION

On May 25, 2018, the Board of Directors of Cango Inc. approved the Employee Stock Ownership Plan (the “ESOP”) for the purpose of providing incentives and rewards to employees and executives who contribute to the success of the Company’s operations, and approved 27,845,526 options under the ESOP. The exercise price for such options is US\$1.7951 per share. Options under the Company’s plan vest over a total period of 4 years from the grant date, pursuant which 50% of the options will vest upon the second anniversary of the grant date and 25% of the options will vest upon the third anniversary and fourth anniversary of the grant date, respectively. Any unvested options will be forfeited upon termination of a grantee’s employment with the Company, unless otherwise determined by the plan’s administrator.

In May 2018, the Company granted 5,569,105 options (Batch 1) to certain eligible employees. In February 2019, the Company granted another 5,569,105 options (Batch 2). In October 2020, the Company granted another 8,353,658 options (Batch 3).

Prior to the Company’s IPO, the estimated fair value of the Company’s ordinary shares at their respective grant dates, was determined with the assistance of an independent third-party valuation firm. Upon the completion of IPO, the estimated fair value of the Company’s ordinary shares was based on the Company’s share price. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. treasury yield curve in effect at the time of grant for a term consistent with the contractual term of the awards. Expected volatility is estimated based on the historical volatility ordinary shares of several comparable companies in the same industry. The dividend yield is estimated based on the Company’s expected dividend policy over the expected term of the options. The expected exercise multiple is based on management’s estimation, which the Company believes is representative of the future.

The Company uses the binomial tree option pricing model to estimate the fair value of share options with the assistance of an independent third-party valuation firm. The assumptions used to value the share options granted to employees were as follows:

	As of May 25, 2018, (date of inception) Batch 1	As of February 15, 2019, (date of inception) Batch 2	As of October 15, 2020, (date of inception) Batch 3
Risk-free interest rate (%)	2.93	2.66	0.74
Volatility (%)	38.70	38.70	37.60
Expected exercise multiple	2.80	2.30	2.30
Dividend yield	Nil	Nil	Nil
Expected life (in years)	10.00	10.00	10.00
Exercise price (US\$)	1.7951	1.7951	1.7951
Fair value of ordinary shares (RMB)	37.82	26.80	19.03

The Company recognized compensation cost for the share options on a graded vesting basis. The total share-based compensation expenses recognized by the Company for the share option granted were RMB33,410,913, RMB82,265,991 and RMB78,754,828 (US\$12,069,705) for the years ended December 31, 2018, 2019 and 2020, respectively.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

18. SHARE-BASED COMPENSATION - CONTINUED

A summary of option activity under the ESOP is as follows:

	Number of options	Weighted average exercise price RMB	Weighted average Grant date fair value RMB	Aggregate Intrinsic Value RMB
Balance, May 25, 2018 (date of inception)	—	—	—	—
Granted	5,569,105	12	38	
Balance, December 31, 2018	5,569,105	12	38	83,277,751
Granted	5,569,105	12	27	
Exercised	—	—	—	
Forfeited	(311,213)	—	34	
Balance, December 31, 2019	10,826,997	12	32	209,536,040
Granted	8,353,658	12	19	
Exercised	(600,014)	12	38	
Forfeited	(69,914)	12	24	
Balance, December 31, 2020	18,510,727	12	26	205,922,073

As of December 31, 2020, total unrecognized compensation expense relating to unvested options of Batch 1, Batch 2 and Batch 3 was RMB15,811,647 (US\$2,423,241), RMB21,310,438 (US\$3,265,967) and RMB67,260,904 (US\$10,308,185), respectively. The expense of Batch 1, Batch 2 and Batch 3 is expected to be recognized over a weighted-average period of 0.92 years, 1.18 years and 1.74 years, respectively, and a weighted average remaining contractual term of Batch 1, Batch 2 and Batch 3 is 7.4 years, 8.13 years and 9.79 years, respectively.

For the years ended December 31, 2018, 2019 and 2020, the Company allocated share-based compensation expense as follows:

	For the year ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Cost of revenue	1,369,848	3,372,908	3,075,317	471,313
Sales and marketing	7,116,524	17,522,654	16,003,486	2,452,642
General and administrative	23,187,170	57,092,589	55,590,630	8,519,636
Research and development	1,737,371	4,277,840	4,085,395	626,114
	<u>33,410,913</u>	<u>82,265,991</u>	<u>78,754,828</u>	<u>12,069,705</u>

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

19. COMMITMENTS AND CONTINGENCIES*Capital commitments*

The Group’s capital commitments primarily relate to commitments in connection with the expansion and improvement of its network infrastructure and its plan to decorate its head office. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB3,427,020 (US\$525,214) as of December 31, 2020. Almost all of the commitments relating to the network infrastructure and office decoration are to be fulfilled within one year.

Operating lease commitments

The Company leases facilities in the PRC under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. The Company’s lease agreements are entered into with third parties and usually have a renewal option with an advance notice period of one to twelve months, and no restrictions or contingent rents.

Future minimum payments under non-cancelable operating leases for office rental consist of the following as of December 31, 2020:

	RMB	US\$
Year ending December 31:		
2021	17,379,941	2,663,592
2022	13,738,864	2,105,573
2023 and after	100,968,426	15,474,088
Total	<u>132,087,231</u>	<u>20,243,253</u>

Legal contingencies

The Company is not currently involved in any legal proceedings which could result in material loss contingencies.

Risk assurance contingencies

The Company estimated and accrued for the contingent loss related to the risk assurance liability as disclosed in Note 11.

CANGO INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020****(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)****20. ORDINARY SHARES**

On October 9, 2017 and November 29, 2017, the Company issued 124,969,987 ordinary shares in total with par value of US\$0.0001 to its shareholders in connection with the incorporation of the Company (Note 1). As of December 31, 2017, 372,138,271 ordinary shares were authorized and 124,969,987 ordinary shares were issued and outstanding, respectively.

Upon completion of the Company’s IPO on July 26, 2018, 169,239,905 Class A ordinary shares were issued upon conversion of all redeemable convertible preferred shares. The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to twenty votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by the holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares.

Upon completion of the Company’s IPO, 8,000,000 Class A ordinary shares (4,000,000 ADS equivalent) were issued on July 30, 2018, and 600,000 Class A ordinary shares (300,000 ADS equivalent) were issued on August 6, 2018 pursuant to the underwriters’ partial exercise of their option to purchase additional ADSs.

On June 17, 2019, one Class A ordinary share was cancelled. On June 26, 2019, 609,805 shares Class B ordinary shares were converted to equivalent number of Class A ordinary shares. On August 14, 2019, 1,737,238 shares Class B ordinary shares were converted to equivalent number of Class A ordinary shares.

On May 27, 2020, one Class A ordinary share was cancelled. On September 14, 2020, 2,000,000 shares Class B ordinary shares were converted to equivalent number of Class A ordinary shares.

As of December 31, 2020, there were 227,831,213 and 74,978,677 Class A and Class B ordinary shares issued, 224,771,083 and 74,978,677 Class A and Class B ordinary shares outstanding respectively.

21. TREASURY SHARES

On June 5, 2019, the Board of Directors of the Company authorized a share repurchase program (“Share Repurchase Program”), pursuant to which the Company was authorized to repurchase its own issued and outstanding American depositary shares (“ADSs”) up to an aggregate value of US\$10 million from the open market, in negotiated transactions off the market, or through other legally permissible means in accordance with applicable securities laws from time to time.

On July 19, 2019, the Company repurchased an aggregate of 431,556 ADSs, representing 863,112 Class A ordinary shares under the Share Repurchase Program, at an average price of \$6.95 per ADS, for US\$2,999,314 (RMB20,638,881).

On May 29, 2020, the Company entered ADS Repurchase Agreements with Minghuai L.P., Xiehuai L.P. and Haitong International Investment Holding Limited which repurchased an aggregate of 1,398,516 ADSs, representing 2,797,032 Class A ordinary shares, at an average price of \$5.00 per ADS, for US\$6,992,580 (RMB49,219,318) in 2020.

As of December 31, 2020, the Company repurchased an aggregate of 1,830,072 ADSs, representing 3,660,144 Class A ordinary shares under the Share Repurchase Program, at an average price of \$5.46 per ADS, for US\$9,991,894 (RMB69,858,199). As of December 31, 2020, 600,014 shares were transferred to employees when they exercise their ESOP. The remaining balance of treasury shares represents 3,060,130 Class A ordinary shares, at an average price of \$5.25 per ADS, for US\$8,038,895 (RMB56,419,225). These shares were recorded at their purchase cost on the consolidated balance sheets and have not been cancelled as of December 31, 2020.

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 and 2020

(Amounts in Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

22. RESTRICTED NET ASSETS

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

Under PRC law, the Company’s subsidiaries, VIE and the subsidiaries of the VIE located in the PRC (collectively referred as the “PRC entities”) are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The PRC entities are required to allocate at least 10% of their after tax profits on an individual company basis as determined under PRC accounting standards to the statutory reserve and has the right to discontinue allocations to the statutory reserve if such reserve has reached 50% of registered capital on an individual company basis. In addition, the registered capital of the PRC entities is also restricted.

Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the subsidiary. The PRC entities are also subject to similar statutory reserve requirements. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances or cash dividends.

Amounts restricted that include paid in capital and statutory reserve funds, as determined pursuant to PRC GAAP, are RMB6,431 million and RMB6,259 million (US\$959 million) as of December 31, 2019 and 2020, respectively.

23. SUBSEQUENT EVENTS

On March 2, 2021, the Board of Directors of the Company authorized another share repurchase program under which the Company may repurchase up to US\$50 million worth of its outstanding (i) American depository shares (“ADSs”), each representing two Class A ordinary shares, and/or (ii) Class A ordinary shares over the next 12 months through open market transactions at prevailing market prices, privately negotiated transactions, block trades or any combination thereof or other legally permissible means in accordance with applicable securities laws from time to time. The Company has repurchased an aggregate of 4,189,888 ADS, representing 8,379,776 Class A ordinary shares at an average price of \$9.14 per ADS for RMB249.9 million (US\$38.3 million).

On March 11, 2021, the Company’s Board of Directors approved a special cash dividend of US\$0.50 per share based on the Company’s outstanding ordinary shares. This special cash dividend, aggregating approximately RMB987.9 million (US\$151.4 million), of which RMB961.1 million (US\$147.3 million) was paid on April 8, 2021 (Eastern Time) to shareholders of record as of the close of trading on March 22, 2021 (Eastern Time). Due to the Company’s proposal to pay the dividend, the exercise price per share subject to an option of the ESOP would be adjusted from US\$1.7951 per share to US\$1.2951 per share from March 22, 2021.

As of March 31, 2021, the Company has sold an aggregate of 9,597,206 ADS of Li Auto at an average price of \$25.85 per ADS for RMB1,618.6 million (US\$248.1 million), net of commission and related service fee.

CANGO INC.

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24. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

The following is the condensed financial information of the Company on a parent company only basis.

Condensed balance sheets

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$
ASSETS			
Current assets			
Cash and cash equivalents	1,182,416	114,892,815	17,608,094
Short-term investments	—	4,045,157,224	619,947,467
Short-term amounts due from related parties	1,474,327,047	619,608,050	94,959,088
Other current assets	—	3,578,607	548,446
Total Current assets	1,475,509,463	4,783,236,696	733,063,095
Non-current assets			
Investments in subsidiaries, VIE and VIE’s subsidiaries	4,002,882,982	3,596,657,570	551,211,888
Total non-current assets	4,002,882,982	3,596,657,570	551,211,888
Total assets	5,478,392,445	8,379,894,266	1,284,274,983
LIABILITIES			
Current liabilities			
Other current liabilities	542,906	4,685,129	718,027
Total current liabilities	542,906	4,685,129	718,027
Total liabilities	542,906	4,685,129	718,027
Shareholders’ equity			
Class A Ordinary shares (par value of US\$0.0001 per share; 420,674,280 shares authorized as of December 31, 2019 and 2020, respectively; 225,831,214 shares issued and 224,968,102 shares outstanding as of December 31, 2019; 227,831,213 shares issued and 224,771,083 shares outstanding as of December 31, 2020)	153,044	154,483	23,676
Class B Ordinary shares (par value of US\$0.0001 per share; 79,325,720 shares authorized as of December 31, 2019 and 2020, respectively; 76,978,677 shares issued and outstanding as of December 31, 2019; 74,978,677 shares issued and outstanding as of December 31, 2020)	51,216	49,777	7,629
Treasury shares	(20,638,881)	(56,419,225)	(8,646,625)
Additional paid-in capital	4,526,344,454	4,591,455,557	703,671,350
Accumulated other comprehensive income	119,430,738	(115,386,427)	(17,683,744)
Retained earnings	852,508,968	3,955,354,972	606,184,670
Total shareholders’ equity	5,477,849,539	8,375,209,137	1,283,556,956
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	5,478,392,445	8,379,894,266	1,284,274,983

CANGO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

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25. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY - CONTINUED

Condensed statements of comprehensive income

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
General and administrative	(6,896,907)	(10,164,242)	(11,854,536)	(1,816,787)
Interest Income	12,949,945	4,831,112	1,889,711	289,611
Foreign exchange loss	—	(26,334)	(706,543)	(108,282)
Fair value change of equity investment	—	—	3,315,475,734	508,118,886
Income from equity method investments	296,639,027	396,273,356	59,992,497	9,194,251
Other income	—	—	4,725,168	724,164
Other expense	—	—	(4,184)	(641)
Net income before income taxes	302,692,065	390,913,892	3,369,517,847	516,401,202
Income tax expense	—	—	—	—
Net income	302,692,065	390,913,892	3,369,517,847	516,401,202
Other comprehensive income (loss), net of tax	109,851,694	9,977,742	(234,817,165)	(35,987,305)
Total comprehensive income, net of tax	412,543,759	400,891,634	3,134,700,682	480,413,897

Condensed statements of cash flows

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Net income	302,692,065	390,913,892	3,369,517,847	516,401,202
Fair value change of equity investment	—	—	(3,315,475,734)	(508,118,886)
Share of profit in subsidiaries, VIE and VIE’s subsidiaries	(296,639,027)	(396,273,356)	(59,992,497)	(9,194,251)
Changes in operating assets and liabilities:				
Net cash provided by (used in) operating activities	3,682,656	(2,989,082)	(13,000,544)	(1,992,422)
Net cash (used in) provided by investing activities	(2,818,225,871)	(604,084,150)	456,658,680	69,986,005
Net cash provided by (used in) financing activities	3,576,481,519	(274,666,096)	(310,709,163)	(47,618,262)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	108,586,347	12,397,093	(19,238,574)	(2,948,440)
Net increase (decrease) in cash and cash equivalents and restricted cash	870,524,651	(869,342,235)	113,710,399	17,426,881
Cash and cash equivalents and restricted cash at beginning of the year	—	870,524,651	1,182,416	181,213
Cash and cash equivalents and restricted cash at end of the year	870,524,651	1,182,416	114,892,815	17,608,094

Basis of presentation

Condensed financial information is used for the presentation of the Company, or the parent company. The condensed financial information of the parent company has been prepared using the same accounting policies as set out in the Company’s consolidated financial statements except that the parent company used the equity method to account for investment in its subsidiaries and VIE.

The parent company records its investment in its subsidiaries and VIE under the equity method of accounting as prescribed in ASC 323 *Investments-Equity Method and Joint Ventures* (“ASC 323”). Such investments are presented on the condensed balance sheets as “Investment in subsidiaries and VIE’s and their respective profit or loss as “Equity in profits of subsidiaries and VIE’s on the condensed statements of comprehensive income. Equity method accounting ceases when the carrying amount of the investment, including any additional financial support, in a subsidiary and VIE is reduced to zero unless the parent company has guaranteed obligations of the subsidiary and VIE or is otherwise committed to provide further financial support. If the subsidiary and VIE subsequently reports net income, the parent company shall resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The parent company’s condensed financial statements should be read in conjunction with the Company’s consolidated financial statements.

Cooperation Agreement on Automobile Finance Business of WeBank

Party A: Shenzhen Qianhai WeBank Co., Ltd.

Address: Block A, Building 7, Shenzhen Bay Science and Technology Ecological Park, No. 1819 Shahe West Road, Nanshan District, Shenzhen

Legal representative: Gu Min

Contact information: [REDACTED]

Party B: Shanghai Cango Investment and Management Consultation Service Co., Ltd.

Address: 10/F, Building 3, Youyou Century Square, No. 428 Yangwan South Road, Pudong New Area, Shanghai

Legal representative: Zhang Xiaojun

Contact information: [REDACTED]

Party A and Party B, through friendly consultation, have reached this Agreement on matters such as the cooperation scenarios and term of cooperation of automobile finance business.

Article I Cooperation Scenarios

1.1 Vehicle purchase scenario: Party A shall provide financial services for vehicle purchase for customers through Party B's recommendation, in order to meet the customers' demands for purchasing vehicles and/or automobile accessories (services).

1.2 Vehicle rental scenario: Party A shall provide financial services for vehicle rental for customers through Party B's recommendation, in order to meet customers' demands for renting cars and/or automobile accessories (services).

1.3 After-market scenario: Party A shall provide after-market financial services for customers through Party B's recommendation, in order to meet customers' after-sales transaction demands.

1.4 Other scenarios related to vehicle owners or vehicles: Party A shall provide other financial services for customers through Party B's recommendation, in order to meet other consumption demands of customers with vehicles.

Article II Term of Cooperation

2.1 This Agreement shall take effect as of April 29, 2020 for a period of two years. If either party fails to receive a written notice from the other party before the above-mentioned term of cooperation expires, the term of cooperation of this Agreement shall be automatically extended for one year and only once.

2.2 Where the existing customer loans under this Agreement have not been fully paid off upon the expiration of term of cooperation between Party A and Party B, the business involving the existing customers shall still be subject to the terms of this Agreement until all existing customer loans are settled; in order to avoid ambiguity, no new customer's loan business shall be conducted according to this Agreement after the expiration of term of cooperation.

Article III Rights and Responsibilities of Both Parties

3.1 Party B shall recommend relevant customers to Party A for each cooperation scenario. Party A agrees to provide loans to the customers that are recommended by Party B and able to meet Party A's loan conditions (hereinafter referred to as the "customers"), and sign the *Automobile Finance Loan Contract* (the specific name of the contract shall be subject to the version actually signed by the customers. Hereinafter referred to as the "Master Contract" and the "Loan Contract"). Party A shall entrust Party B to provide relevant services for the cooperative business under the Loan Contract. Party B shall, in accordance with this Agreement and the *Service Agreement of Cooperation Agreement on Automobile Finance Business of WeBank* and the *Product Operation Agreement of Cooperation Agreement on Automobile Finance Business of WeBank* (including change and supplementation to the above agreements from time to time, hereinafter collectively referred to as the "Service Agreements") separately signed by both parties, provide relevant services and perform relevant responsibilities. Party A shall pay the service fee to Party B according to the service content, quantity, quality and other information provided by Party B as agreed in the Service Agreements.

3.2 Party A shall grant loans to the customers who have obtained the loan qualification and meet the loan granting conditions recommended by Party B, except that Party A is unable to grant loans due to laws and regulations, regulatory policies, risk policies, limit reasons, system failure, customer abandonment and other reasons.

3.3 Party A shall have the right to change/adjust the cooperation model and product modality according to regulatory requirements, market changes, cooperative business status and other factors. Party B shall, in accordance with the requirements of Party A, sign relevant agreements on the above changes and adjustments and perform necessary formalities. Where Party B violates this Agreement or Service Agreements, Party A shall have the right to suspend/terminate the loan under this Agreement only on this ground.

3.4 Party B shall formulate corresponding management system and operation process for the cooperative business, and provide them to Party A for review.

3.5 Where Party A cooperates with other cooperative financial institutions to jointly grant loans under this Agreement to customers, any lender shall have the same rights and interests as Party A, and Party B shall not raise any defense against the obligations to be performed under the Agreement on this ground.

3.6 Party A shall have the right to dispose of the loan creditor's rights granted to customers under this Agreement at any time, including but not limited to sales and transfer, and Party B shall provide Party A with all necessary assistance in this regard, including but not limited to signing relevant documents, handling corresponding procedures and taking corresponding actions according to Party A's instructions. However, Party A shall not cause additional expense burden on Party B due to the above sale/transfer of creditor's rights.

3.7 Party B specifically represents and warrants as follows:

- (1) Party B is a legal person incorporated in accordance with the law, and is willing to use the assets owned by Party B or legally disposed by Party B to perform the obligations under this Agreement, Service Agreements and all relevant documents signed by it as a party with respect to the cooperation hereunder;
- (2) The signing of this Agreement by Party B is the true intention of Party B. Party B shall have the full right, authority and legal power to sign and perform this Agreement and Service Agreements and all relevant documents signed by it as a party with respect to the cooperation under this Agreement. And Party B has taken or obtained all necessary corporate actions, internal authorizations and external approvals with respect to the signing and performance of the above agreements;
- (3) Any change in the industrial and commercial registration, organizational structure, equity structure, operating mode or financial condition of Party B or any debt restructuring, and substantive related party transactions shall not affect the legal binding force of this Agreement on Party B;
- (4) Any successor or transferee of Party B shall be bound by all articles of this Agreement. Unless otherwise agreed by Party A in writing, Party B shall not transfer the obligations under this Agreement, Service Agreements and all relevant documents signed by it as a party with respect to the cooperation hereunder;
- (5) Where Party B shall perform the payment obligations of a certain amount in accordance with this Agreement and Service Agreements, Party B shall irrevocably authorize Party A to deduct money from the account opened by Party B with Party A or entrust other financial institutions to deduct the money from Party B's account opened with such institutions to any account of Party A, until the payment obligations to be performed by Party B are fully performed;
- (6) Where Party A and Party B negotiate to change the cooperation model and/or content under this Agreement, they can sign supplementary agreements to this Agreement, and add the appendixes/ancillary agreements to the Agreement. The contents signed shall constitute an integral part of this Agreement;
- (7) Party B shall regularly (at least on a quarterly basis) provide Party A with the materials of the related companies controlled by Party B and the actual controller of Party B (including but not limited to financial statements, audit reports, financial details and tax data, equity structure, financing status, financing receipt vouchers and asset operation data), and ensure the authenticity, integrity and effectiveness of the aforesaid materials, so that Party A can timely assess Party B's ability to perform this Agreement;
- (8) Party B shall provide Party A with the automobile production and sales (if any) and overall automobile finance business data (including but not limited to business model, product modality, granting amount and business balance, overdue data, organizational structure changes, market channel changes) of Party B and its related parties on a monthly basis, and ensure the authenticity, integrity and effectiveness of the information, so as to facilitate the in-depth cooperation between the two parties in the field of automobile finance;

(9) Where Party B incurs matters that may affect the rights and interests of Party A, including but not limited to changing Company's organizational structure, business operation model and product modality, and signing or changing agreements that may affect this Agreement or the rights and interests of Party A, Party B shall notify Party A in writing at least 15 workdays prior to the occurrence of the above matters. Party A shall have the right to require Party B to eliminate the adverse impact caused thereby, to add or change the conditions for Party A to perform relevant obligations under this Agreement, and to terminate this Agreement and Service Agreements, or require Party B to compensate Party A for the losses;

(10) Where Party B suffers matters that may affect its normal operation, legality/compliance and solvency, including but not limited to material adverse changes in operating conditions, high fines imposed by competent authorities, application for bankruptcy or reorganization, major legal disputes, and negative incidents of actual controller and main management (including litigation), Party B shall notify Party A in writing within five workdays after the occurrence of the aforesaid matters. Party A shall have the right to require Party B to eliminate the adverse impact caused thereby, to add or change the conditions for Party A to perform relevant obligations under this Agreement, and to terminate this Agreement and Service Agreements, or require Party B to compensate Party A for the losses.

Article IV Information Authorization, Information Security and Confidentiality

4.1 The customer information obtained by Party A and Party B based on the cooperative business shall be expressly authorized by the customer to be collected, shared and used. Where Party A and Party B indirectly obtain customer information, they shall require the customer information provider to specify the source of customer information and confirm the legality of the source. Party B shall not use or store customer information without the written authorization of the customer.

4.2 Party A and Party B shall take effective technical measures to maintain the security of customer information and protect the rights of customers, and formulate specific protection clauses, accident handling methods and compensation liability provisions for information security and rights of customers.

Where Party B intentionally or negligently causes the leakage of information not limited to the customers of the cooperative business, Party B shall notify Party A within one natural day after becoming aware of the leakage, and assume full responsibility for the information leakage.

4.3 The information exchanged between Party A and Party B based on the cooperative business shall be used only for the purpose of this Agreement. Without the written consent of Party A, Party B shall not use relevant data and customer information inquired by Party A, as well as the results generated by Party B based on risk models and rules, and shall not disclose to any third party irrelevant to this Agreement or provide any support for other business of Party B and its related party.

4.4 Both parties shall strictly keep confidential all information received or obtained by the other party as a result of signing this Agreement in connection with the following matters, and shall not disclose or use any of the following information to any third party other than the regulatory authorities:

- (1) This cooperative business;
- (2) Contents of negotiation on the cooperative business;
- (3) Credit investigation data, customer information and transaction information provided based on this cooperative business;
- (4) Other business, financial and other matters of both parties (including future plans and objectives).

4.5 This confidentiality clause shall not prohibit the disclosure or use of business confidential information in the following ways and within the following scope:

- (1) Disclose or use business confidential information in accordance with the provisions or requirements of regulatory authorities of both parties;
- (2) Disclose or use for the purpose of any judicial, arbitral or other similar proceedings in connection with this Agreement or any other agreement entered into pursuant to this Agreement.

4.6 The responsibility for confidentiality shall commence on the date of signing this Agreement and continue until such information is made public or permitted to be made public by the disclosing party, regardless of the expiration of the term hereof.

Article V Anti-Commercial Bribery

5.1 Both parties are aware of and willing to strictly abide by legal provisions of the People's Republic of China on anti-commercial bribery, and both parties understand that bribery and corruption in any form will violate the law and will be severely punished by the law.

5.2 Both parties shall not ask for, accept or offer any interest other than those stipulated in the Agreement from the other party or the handling personnel or other relevant personnel of other parties, including but not limited to explicit deduction, hidden deduction, cash, shopping card, physical objects and negotiable securities, tourism or other non-material interest. Where such interest is customary in the industry, it shall be expressly stated in this Agreement.

5.3 Party A shall strictly prohibit any commercial bribery of the handling personnel of Party A, and the occurrence of any of the behaviors listed in Article 5.2 by such handling personnel is in violation of Party A's company system, and shall be punished by Party A's company system and national laws.

5.4 Party A solemnly prompts: Party A objects to any behavior listed in Article 5.2 between Party B and the handling personnel of Party A and any third party for the purpose of this Agreement. Such behaviors are in violation of national laws and shall be punished by national laws.

5.5 If one party or one party's handling personnel causes any loss to the other party due to its violation of the provisions of Articles 5.2, 5.3 and 5.4 above, he or she shall be liable for damages.

5.6 In this Article V, “other relevant persons” refer to persons other than the handling personnel of Party A who has a direct or indirect interest relationship with this Agreement, including but not limited to the relatives and friends of the persons handling this Agreement.

Article VI Breach of Contract

6.1 In case of any of the following events (hereinafter referred to as the “event of default”) by either party shall constitute breach of contract under this Agreement (hereinafter referred to as the “default party”):

- (1) Violate any provision of this Agreement and Service Agreements, or fail to perform this Agreement and Service Agreements or perform in a manner that is inconsistent with this Agreement and Service Agreements;
- (2) Seriously untrue or substantially misleading representations, warranties and commitments made by either party hereunder;
- (3) Refuse to perform all or part of agreements in an explicit or implied manner, or show by actual conduct that it is unable to continue performing all or part of agreements;
- (4) Any party (including its related company and actual controller) is subject to deterioration of operating conditions, bankruptcy or reorganization application, loss of goodwill, and commits a material breach of contract against the other party to the contract; or any observant party has reasonable doubt that it is unable to perform this Agreement;
- (5) Violate any applicable law, which will directly affect this Agreement or cause losses to the other party;
- (6) Violate other contracts and supplementary agreements signed by both parties.

6.2 Notice of Default

6.2.1 Upon the occurrence of an event of default, the default party shall notify the observant party as soon as practicable, but shall not be later than five natural days after becoming aware of the event of default under any circumstances (except for force majeure).

6.2.2 In the event of default, without prejudice to the right of the observant party to claim for compensation, the observant party may, after receiving the notice of event of default from the default party or within 90 natural days after it becomes aware of or should have become aware of the occurrence of such an event (whichever is earlier), send a written notice to the default party to choose to continue this Agreement in whole/in part or notify the default party to terminate this Agreement.

6.2.3 This Agreement shall terminate in whole or in part upon receipt by the default party of all or part of the termination notice for the cooperation hereunder.

6.2.4 Where the observant party exercises any tolerance, grace period or delay in the performance of the rights and interests of the default party in respect of any breach or delay of the default party, it shall not impair, affect or restrict all rights and interests of the observant party in accordance with relevant laws and this Agreement; it shall not be deemed as a license or acceptance by the observant party of any breach of this Agreement by the default party, nor shall it be deemed to be a waiver of the right of the observant party to take action against any existing or future breach.

6.2.5 After the occurrence of an event of default, the observant party may take one or more of the following measures:

- (1) Require the default party to eliminate the adverse impact caused to it;
- (2) Require the default party to continue to perform its obligations, provided that the observant party has the right to require the default party to bear the losses caused by its breach of contract;
- (3) Where the default party fails to perform its obligations in accordance with this Agreement and Service Agreements, the observant party shall have the right not to pay the service fee corresponding to the part, and the observant party has the right to request the default party to return the service fee already paid by the observant party;
- (4) Require the default party to compensate the observant party for the losses caused by the event of default, including the actual expenses incurred by the observant party in performing the Agreement by itself or employing a third party, the expenses incurred to eliminate the adverse impact of the default, and the reasonable interests that can be obtained after the normal performance of this Agreement;
- (5) Take any other measures permitted by applicable laws and regulations or agreed in this Agreement.

Article VII Termination of Cooperation

7.1 In case of any of the following events (hereinafter referred to as “termination event”), either party shall have the right to terminate this Agreement, Service Agreements and other relevant agreements entered into pursuant to this Agreement:

- (1) Where the policies of the regulatory authorities of Party A (including the China Banking and Insurance Regulatory Commission or the People’s Bank of China and its branches) have material changes at the time of conclusion of this Agreement or Party A requests in writing to terminate this cooperative business;
- (2) Where any new applicable law or normative document has been promulgated by governmental or regulatory authorities, or any new interpretation or modification has been made to the existing applicable law and normative document, resulting in that it is impossible to carry out this cooperative business or either party is unable to obtain all of its interests under any important provision of this Agreement, and either party requests for termination;
- (3) Where either party incurs a material adverse change, which makes it impossible to continue the performance of this Agreement or will cause material damage to both parties at the same time, and either party asks to terminate this Agreement;
- (4) Where the observant party requests for termination when the event of default specified in Article VI of this Agreement occurs.

7.2 Termination notice

7.2.1 Upon the occurrence of a termination event, the party entitled to request the termination shall decide to terminate the event as soon as practicable, provided that in no event (other than force majeure) shall the other party be notified in writing of the termination (the “termination notice”) not later than five natural days after the relevant termination event becomes known or occurs.

7.2.2 This Agreement, Service Agreements and any cooperation entered into pursuant to this Agreement shall terminate upon receipt of the termination notice by the other party.

7.3 Upon expiration of the term of cooperation of this Agreement, the cooperative business hereunder shall be terminated, unless otherwise agreed in this Agreement.

Article VIII Supplementary Provisions

8.1 This Agreement is a cooperation framework agreement, and both parties may separately sign supplementary texts (including but not limited to appendixes, supplementary agreements and ancillary agreements) according to the actual business needs to implement the details of the cooperation project.

8.2 The supplementary texts of this Agreement and supplementary agreements and appendixes hereto shall constitute an integral part hereof, and shall be subject to this Agreement.

8.3 In this Agreement, "in writing" means in the form of paper, e-mail, telegram, telex, fax or electronic data interchange or any other tangible representation of the contents contained herein. "Notice" means any communication, request, demand and decision. The notice shall take effect when the notice arrives at the registration place, business place or designated place of the other party or reaches the e-mail address.

8.4 Any dispute arising from the performance of this Agreement by Party A and Party B shall be settled by both parties through negotiation. If negotiation fails, either party may file a lawsuit to the people's court where Party A is located.

8.5 The conclusion, interpretation and dispute resolution of this Agreement shall be governed by the laws of the People's Republic of China.

8.6 This Agreement shall be signed by the legal representatives or authorized agents of Party A and Party B on the signing date, and shall take effect after being signed (or affixed with name seals) and affixed with the official seal/special contract seal.

8.7 This Agreement shall be made in quadruplicate with each party holding two copies that have the same legal effect.

(No text below)

(No text on this page and it is the signature page of this Agreement)

Party A (seal) [Shenzhen Qianhai WeBank Co., Ltd.] (seal)

Legal representative or authorized agent (signature or seal): [Gu Min] (seal)

Signing date:

Party B (seal) [Shanghai Cango Investment and Management Consultation Service Co., Ltd.] (seal)

Legal representative or authorized agent (signature or seal): [Zhang Xiaojun] (seal)

Signing date: April 30, 2020

Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

Contract No.: WeBank (CGW) BZ 2021 No. 001

Automobile Finance Guarantee Contract

Party A: Shenzhen Qianhai WeBank Co., Ltd.

Address: Block A, Building 7, Shenzhen Bay Science and Technology Ecological Park, No. 1819 Shahe West Road, Nanshan District, Shenzhen

Legal representative (responsible person): Gu Min

Contact information: [REDACTED]

Party B: Shanghai Cango Investment and Management Consultation Service Co., Ltd.

Address: 10/F, Building 3, Youyou Century Square, No. 428 Yanggao South Road, Pudong New Area, Shanghai

Legal representative: Zhang Xiaojun

Contact information: [REDACTED]

Party C: Cango Financing Guarantee Co., Ltd.

Address: No. 75-1 Jinfeng Street, Shenfu New Area, Liaoning Province

Legal representative: Song Zhipeng

Contact information: [REDACTED]

Whereas:

1. Party A and Party B signed the *Automobile Finance Business Cooperation Agreement* (WeBank (CGW) HZ 2018 No. 001) in 2018 (hereinafter referred to as the “original cooperation agreement”), and the *Automobile Finance Business Cooperation Agreement* (WeBank (CGW) HZ 2020 No. 001) in 2020 (hereinafter referred to as the “new cooperation agreement”, and the original cooperation agreement and the new cooperation agreement are hereinafter collectively referred to as the “cooperation agreements”). According to the cooperation agreements, Party A shall cooperate with Party B in automobile finance business, provide loans to the customers with loan eligibility who are recommended by Party B and approved by Party A, and sign the *Automobile Finance Loan Contract* (the name of the actually-signed contract shall prevail, hereinafter referred to as the “**master contract**”);

2. Party C is a legally established financing guarantee company, and voluntarily assumes the guarantee liability under the cooperation agreements for the customer loans granted as of January 1, 2021 (inclusive) under the cooperation agreements. To avoid ambiguity, the signing date of the master contract shall be within the cooperation period agreed in the cooperation agreements, and the expiration date of performance period of the master contract shall not be limited to the above period. “Customers” and “customer loans” under this Contract shall be all defined in compliance with/within the scope guaranteed by Party C as agreed herein. The specific guarantee items are as follows:

Article I Joint and Several Liability Guarantee

1.1 Guarantee scope of maximum amount

Party C is willing to assume joint and several guarantee liability for customer loans. The scope of guarantee provided by Party C includes all debts of the debtor under the master contract, including but not limited to the principal of debt, interest, default interest and other fees (if any).

1.2 Party A shall not require Party C to undertake the guarantee liability mentioned in this article where the compensation for Party C’s actual performance of guarantee liability under this Contract reaches [REDACTED]% of the loan balance of all customers. However, the security deposit pledge guarantee liability undertaken by Party C in accordance with Article II of this Contract is not subject to this limit.

1.3 Party C shall independently undertake the guarantee liability under this Contract. Regardless of whether there is any guarantee of real right or other guarantees provided by the guarantor (including the debtor of the master contract), Party A shall have the right to directly require Party C to undertake joint and several guarantee liability without executing other guarantee rights or other guarantees in the first place. Party C shall not raise any objection to this.

1.4 Maximum guarantee period: From the effective date of this Contract to three years after the expiration of the specific debt performance period under the master contract.

1.5 Performance of joint and several guarantee liability

In case of any circumstance specified in this clause (“**guarantee liability event**”), Party A may require Party C to undertake joint and several guarantee liability according to this clause.

1.5.1 Where any loan of customers is overdue for [REDACTED] natural days, Party C shall bear joint and several liability for the overdue loan within [REDACTED] natural days from the date of overdue.

1.5.2 Where customers default under the master contract and Party A requires customers to accelerate the repayment of all the remaining principal and interest of loans (including but not limited to principal, interest, default interest and other fees), Party C shall undertake joint and several liability for the overdue loan within [REDACTED] natural days after customers accelerate the repayment.

1.5.3 In case of any other event that Party A has the right to require customers to accelerate the repayment of the remaining principal and interest of loans (including but not limited to principal, interest, default interest and other fees) according to the master contract, Party C shall undertake joint and several liability for the overdue loan within [REDACTED] natural days after customers accelerate the repayment.

1.6 Where Party C performs the joint and several guarantee liability according to the provisions of this article, Party C shall irrevocably authorize Party A to deduct funds from the settlement account (account number: [REDACTED]) and security deposit account opened by Party C with Party A (account number: [REDACTED]) until Party C’s performance of the joint and several guarantee liability under this Contract is unconditionally and irrevocably completed.

Article II Security Deposit Pledge Guarantee

2.1 The security deposit account (account number: [REDACTED]) is opened by Party C with Party A, and the security deposit shall be saved and released according to the following conventions:

2.1.1 Party C shall save security deposit into the security deposit account according to the method, amount and/or ratio agreed by both parties, including but not limited to the *Supplementary Agreement on Security Deposit* signed by Party A and Party C from time to time. Meanwhile, Party C shall authorize Party A to deduct the above amount from Party C’s settlement account and transfer into the security deposit account.

Prior to the occurrence of a **trigger event** (as defined in Article IV below), Party A may release the security deposit on a regular basis as long as the security deposit meets the agreed release conditions. The corresponding relationship between a single loan and the release of security deposit shall be subject to the confirmation of Party A, unless there are material errors.

Party A and Party C may, from time to time, use the amount and/or ratio of the security deposit determined in the *Supplementary Agreement on Security Deposit* as an integral part of this Contract.

2.1.2 Any amount paid by Party C shall be deemed as specified and pledged to Party A upon entry into the security deposit account, and the pledge shall take effect from then on and provide guarantee for customer debts guaranteed by the used car guarantee contract agreed in Article 8.3 and this Contract, including but not limited to principal of loan, interest, default interest and other relevant fees. All security deposits under the security deposit account shall provide guarantee for the debts of all customers, and shall not be affected by the amount set aside by any customer of Party C. Where any customer violates the master contract signed by it and Party A, Party A shall have the right to directly deduct the security deposit in the security deposit account based on the total amount payable by the customer due to default, in order to perform the guarantee liability for the security deposit assumed by Party C under this Contract.

2.2 The fund in the security deposit account shall be subject to the current deposit interest rate of the People's Bank of China, and Party A shall pay interest to Party C according to the interest settlement rules of Party A, and carry forward the interest to the settlement account of Party C on a regular basis.

2.3 Party C shall ensure that the amount in the security deposit account complies with the provisions of this article. Where Party C fails to save security deposit in full amount on time, Party A may reject customer loan under the cooperation agreements as failing to meet the loan granting conditions. The losses thus incurred to Party B and Party C shall be borne by both parties through negotiation, and Party A shall not be liable for such losses.

2.4 If the customer's loan is overdue or the interest is in arrears, Party A shall enjoy the priority of compensation for the security deposit pledged in the security deposit account.

2.5 In case of any default by Party C, Party A shall have the right not to release or refund the balance in the security deposit account of Party C until the default event is eliminated and/or all customer loans under the cooperation agreements are settled.

Article III Compensation Liability

3.1 In case of any circumstance agreed in this article ("**compensation event**"), Party A may require Party C to perform compensation liability according to this article:

3.1.1 Where any loan of customers is overdue for [REDACTED] natural days, Party C shall bear joint and several liability for the overdue loan within [REDACTED] natural days from the date of overdue.

3.1.2 Where customers commit any default under the master contract, and such default has not been corrected within [REDACTED] workdays.

3.1.3 Where Party A considers that Party C needs to perform the compensation liability, and Party C agrees. (3.1.1, 3.1.2 and 3.1.3 are collectively referred to as "**compensation conditions**").

3.2 In case of compensation event, Party A may require Party C to unconditionally pay Party A all amounts owed by the customer to Party A on the [REDACTED] day after the compensation event occurs (including the remaining principal of loan, interest and default interest payable as of the date of compensation date by Party C and other fees), as the consideration for Party C's performance of compensation liability to purchase such debts from Party A (hereinafter referred to as "**compensation amount**").

3.3 Where the compensation liability actually performed by Party C in accordance with this Contract has reached [REDACTED]% of the loan balance of all customers, Party A shall no longer require Party C to assume the compensation liability mentioned in this article. However, the security deposit's pledge guarantee liability undertaken by Party C in accordance with Article II of this Contract shall not be subject to this limit.

3.4 Party C may irrevocably authorize Party A to deduct from Party C's settlement account and security deposit account opened with Party A the compensation amount payable by Party C for performing the compensation liability under this article; Where Party A chooses to deduct the amount from the security deposit account, Party C shall make up the amount deducted by Party A within [REDACTED] natural days after Party A's deduction, to restore the balance in the security deposit account to the level before deduction.

3.5 Before the **trigger event** occurs, once Party C has paid the compensation amount in full, Party A's bank loan on the customer shall be transferred to Party C. (1) Party A is not required to send the notice of assignment of debt to the customer, and such assignment shall take effect between Party A and Party C; (2) Party A may directly collect the loan from the customer (including judicial collection). After receiving the repayment from the corresponding customer under the assignment of debt to Party C, Party A shall return the loan to Party C after deducting all costs and expenses incurred by Party A in recovering or urging the customer (or third-party guarantor) under the assignment of debt before and after the assignment.

3.6 Party C agrees that the performance of Party C's compensation liability for any customer in accordance with this Contract shall not be conditioned on whether Party A announces the accelerated maturity of the customer under the master contract. Party A is also not required to make any claim or bring any lawsuit against the customer in advance, or dispose of the mortgaged vehicle or other collaterals of the customer by any means, or take any action or assert any right against any third party liable under the cooperation agreements. Meanwhile, the validity of any master contract or any unreasonable defense raised by customers against Party A in accordance with the master contract shall not affect Party C's compensation liability to Party A under this Contract.

3.7 Party C hereby confirms and agrees that, with respect to the compensation amount of any customer, the compensation amount issued by Party A shall be regarded as accurate data, without any certificate and other documents issued by Party A, unless there are obvious or material errors. Where Party C requires obtaining explanations on the compensation amount, Party A shall issue corresponding certificates to Party C.

3.8 Where Party C considers that the result of its performance of compensation liability is caused by the behavior of Party B, Party B and Party C may determine the liability according to the relevant agreement signed by both parties; if there is no agreement arrangement, Party B and Party C shall both negotiate on their own. Party A shall not be responsible for any mediation or proof.

3.9 For the avoidance of doubt, where the compensation event and the guarantee liability event overlap, Party C shall have the right to decide to undertake corresponding obligations in accordance with Article I or Article III of this Agreement.

Article IV Agreement on Special Use of Security Deposit

Party A and Party C agree that when an event of serious deterioration of operating status occurs with Party C in the opinion of Party A (**“trigger event”**), **Party C’s guarantee/compensation liability shall be [REDACTED]% of the customer’s loan balance on the following deduction date, and Party A shall have the right to directly deduct the full amount from the settlement account and security deposit account of Party C.** The deducted amount shall be directly used as the advance payment for debt purchase (hereinafter referred to as the **“first amount of debt purchase”**) paid by Party C to Party A from the date of deduction. The amount equivalent to the unpaid compensation amount payable by Party C under this Contract (if any) shall be deemed that Party C has paid the purchase amount of corresponding debt to Party A. All amount of debt purchase (including the first amount of debt purchase) shall be processed and used in accordance with the following agreement:

4.1 Purpose of the first amount of debt purchase: As for the first amount of debt purchase received by Party A, before the liquidation date (including such date), it shall be used for: (a) the reasonable costs incurred by Party A to reduce the guarantee or compensation liability undertaken by Party C and/or manage the debt of customers for which Party C fails to perform the guarantee and compensation liability (including but not limited to collection and customer service, hereinafter referred to as the **“loan management costs”**); (b) the bank loan with compensation event (hereinafter referred to as the **“credit assignment”**) on or after the payment date of the first amount of debt transfer.

4.2 Purpose of new purchase amount of debt: any repayment of the customer (or third-party guarantor) under the corresponding master contract or other guarantee contract before the liquidation date (inclusive) shall constitute new purchase amount of debt. All purchase amount of new debt may be used for payment after the date of payment of the first amount of debt purchase: (1) loan management costs, and (2) debt purchase amount of the assigned debt. The first amount of debt purchase and new purchase amount of debt are collectively referred to as the **“debt purchase amount”**.

4.3 Liquidation date: Both parties agree that on the 30th workday (the “liquidation date”) following four (4) years from the date of payment of the first amount of debt purchase, both parties shall conduct an overall liquidation in accordance with the provisions of Clause 4.10. Prior to the liquidation date, Party A is only obliged to provide Party C with a monthly statement in accordance with the conditions agreed in Clause 4.9. Meanwhile, before the liquidation date, unless otherwise agreed by Party A in writing, Party C shall have no right to claim rights against Party A or its corresponding customers or guarantors with respect to the debt purchase amount and the assignment of debt (in part or in whole).

4.4 Principle and risk of use of debt purchase amount: before the liquidation date, Party A will use the debt purchase amount in several times as the amount that shall be used by Party C to purchase the corresponding assigned debt and pay the corresponding loan management costs from Party A in times, installments and batches. Party C also confirms that Party A has full rights before the liquidation date to claim or waive part of rights (including but not limited to extension of loan term, deducting interest or waiving the rights to such customers or the guarantors of third parties and collaterals under any master contract or other agreements) to the customers under the assignment of debt by any means recognized by Party A. Party C shall fully bear the repayment risk of the corresponding customers under the assignment of debt, and shall not claim any loss or compensation from Party A on any act or omission of Party A before the liquidation date.

4.5 As for loan management costs, Party C agrees that Party A's reasonable determination of loan management costs shall prevail, and Party A shall separately issue any certificate and other documents, unless there are obvious or material errors.

4.6 Transfer consideration for each assignment of debt: In respect of any assignment of debt, the consideration for an assignment paid by Party C in respect of the assignment of debt is the principal, interest, default interest and other fees (if any) of the customer under the assignment of debt.

4.7 Party C hereby agrees that whether any compensation event occurs under the loan of any customer, which needs to be transferred to Party C, shall be determined by Party A on its own. Meanwhile, as for any customer loan, Party C understands and agrees that Party A may use the debt purchase amount in installments and times according to the specific conditions of the loan, namely: for any loan, Party A shall have the right to use the debt purchase amount paid by Party C in times according to the normal repayment period of such loan, and assign the part of the loan due by installments, or have the right to use the debt purchase amount for purchase at one time, and assign such debt to Party C as a whole.

4.8 Party C agrees that without the prior consent of Party A, Party C is not entitled to notify Party A of using any debt purchase amount under this clause to offset its obligation to pay the compensation amount under this Contract.

4.9 Notice on monthly use of the debt purchase amount: Party A agrees that it shall, within the first 10 workdays of each month after receipt of the initial purchase amount, provide Party C with a statement on the use of the purchase amount for the previous month, including: (a) the balance of the debt purchase amount at the beginning of the previous month; (b) the debt purchase amount that has been used in the previous month; (c) new debt purchase amount.

4.10 On the liquidation date, Party A shall conduct the overall liquidation of Party C according to the following mechanism:

4.10.1 Party A shall, on the liquidation date, calculate the balance of unused debt purchase amount (hereinafter referred to as “**fund balance**”) as of the settlement date according to the reconciliation mechanism under Clause 4.9, and details of assignment of debt that have not been fully recovered by the customer (or the guarantor) under the assignment of debt as of the liquidation date (hereinafter called “**debt balance**”);

4.10.2 Subject to the fund balance and debt balance verified on the liquidation date, if there is fund balance, Party A shall return all fund balance to Party C within five workdays after the liquidation date; if there is debt balance, Party A shall, within 30 workdays, send a notice of assignment of debt to the customer (or guarantor) under such debt balance.

Article V Rights and Obligations

5.1 Rights and obligations of Party C

5.1.1 Party C shall have the right to require Party A to keep confidential the information provided by Party C, unless otherwise required by laws and regulations or regulatory authorities, or otherwise agreed by the parties, or that the information provided by Party C does not constitute confidential information.

5.1.2 Party C has carefully read the master contract and the cooperation agreements and confirmed all clauses. Party C promises and agrees that it is unnecessary to confirm the single loan contract or loan receipt under the master contract that does not exceed the cooperation agreements.

5.1.3 Party C specifically represents and guarantees that:

(1) Party C is legally established and willing to use the assets owned by Party C or legally disposed of as guarantee to ensure the performance of the obligations specified in this Contract;

(2) Party C’s signing of this Contract has been fully authorized or approved by the superior institution/board of directors or other competent authorities;

(3) The signing of this Contract is the true intention of Party C, and there is no fraud or coercion;

(4) Any change in the industrial and commercial registration, organizational structure, equity structure, operating mode or financial condition of Party C or any debt restructuring, material related party transaction or other matters shall not affect the legal binding force of this Contract to Party C;

(5) Party C shall have the obligation to ensure that the successor or transferee of Party C is bound by all provisions of this Contract, and shall not transfer the aforesaid guarantee liability without the written consent of Party A;

(6) Where Party C fails to repay the guaranteed debts in accordance with the provisions of this Contract, Party A shall have the right to deduct the amount from the account opened by Party C with Party A or other financial institutions until the debts are settled in full;

(7) Under the cooperation agreements, where Party A and Party B negotiate to change the contract conditions, sign supplementary agreements, add appendixes to this Contract, Party C shall recognize it even if Party C's guarantee/compensation liability is increased, without affecting the guarantee liability of Party C under this Contract;

(8) Party A shall have the right to dispose of the bank loan granted to customers under this Agreement at any time in the form of including but not limited to sale and transfer, and Party C shall provide Party A with all necessary assistance, including but not limited to signing relevant documents, handling corresponding formalities and taking corresponding actions as instructed by Party A;

(9) Party A shall have the right to jointly grant loans under the cooperation agreements to customers together with other cooperative financial institutions, and Party C shall perform its obligations for the loans granted by Party A in conjunction with other cooperative financial institutions in accordance with this Contract. Party C shall not raise any objection to Party A as the sole borrower. Where Party A cooperates with other financial institutions to jointly grant loans under the cooperation agreements to customers, Party A and/or any financial institution of Party A shall have the right to handle the guarantee formalities and enjoy the security interest as the guarantee agent. Party C shall perform the guarantee liability to Party A and/or the financial institutions of Party A in accordance with the Contract. Party A and/or the financial institutions of Party A may distribute relevant security interest on its own. Party C shall not raise any defense against the performance of guarantee liability on this ground.

5.1.4 Except the information that Party C is obligated to keep confidential, Party C shall submit Party C's materials to Party A on a quarterly basis (including but not limited to financial statements, audit reports, balance of assets under guarantee, net asset data, compensation rate and balance of guarantee liability submitted to the competent authority of Party C), and guarantee the authenticity, completeness and effectiveness of the above-mentioned materials, so that Party A can timely assess the operating condition and guarantee capacity of Party C.

5.1.5 Where Party C incurs any event that may affect the rights and interests of Party A, including but not limited to changing the organizational structure of the company, changing the business operation model, altering the product modality, signing or changing the agreement that may affect the interests of this Contract or Party A, Party C shall notify Party A in writing at least 10 workdays prior to the occurrence of the above-mentioned event.

5.1.6 Where Party C suffers an event that may affect its solvency, including but not limited to material adverse change in operating condition, heavy penalty imposed by competent authorities, material legal disputes, and material lawsuits involving the actual controller and main management, Party C shall notify Party A in writing within 10 workdays after the occurrence of the above-mentioned event, and Party A shall have the right to take remedial measures for breach of contract under this Contract.

5.1.7 After Party C has performed its obligations under this Agreement, Party A may, as required by Party C, issue relevant certificates to Party C within 15 workdays after the performance of this Agreement.

5.2 Where the compensation for the guarantee liability actually performed by Party C according to Article I of this Contract and compensation for compensation liability performed according to the Article III of this Contract total [REDACTED]% of the loan balance of all customers, Party A shall no longer require Party C to undertake the guarantee liability and/or compensation liability, but Party C's security deposit pledge guarantee liability in accordance with Article II of this Contract shall not be subject to this limit.

Article VI Breach of Contract

6.1 In case of any default event by Party C, Party A shall have the right to take one or more of the following measures:

6.1.1 Require Party C to eliminate the adverse impact caused thereby, and require Party C to add or change guarantee conditions, including but not limited to require Party C to make up the security deposit and provide guarantee measures recognized by Party A;

6.1.2 Require Party C to continue performing its obligations as agreed in this Contract;

6.1.3 Require Party C to compensate Party A for the losses caused by the default event, including the expenses incurred by Party A to eliminate the adverse impact of default;

6.1.4 Where Party A claims the subrogation right against the debtor of Party C in accordance with the law, or requests the court to cancel Party C's act of waiving its matured loans or transferring its property free of charge, and transferring its property at an obviously unreasonable low price, Party C shall provide all necessary cooperation and assistance as required by Party A, and Party C shall bear the reasonable expenses arising therefrom;

6.1.5 Take any other measures permitted by applicable laws and regulations or agreed in this Contract.

For the purpose of this article, Party C shall irrevocably authorize Party A to deduct corresponding amount from any account opened by Party C with Party A as a remedy for Party C's default.

Article 7 Confidentiality

7.1 Parties shall strictly keep confidential any form of information received or obtained from other parties in connection with the signing of this Contract (or any other agreement entered into pursuant to this Contract) in respect of the following matters, and shall not disclose or use any of the following information to any third party other than the regulatory authorities:

7.1.1 Business under this Contract;

7.1.2 Negotiation contents related to this Contract;

7.1.3 Relevant credit investigation data, customer information and transaction information provided based on the business under this Contract;

7.1.4 Business, finance and other matters of other parties (including future plans and objectives).

7.2 This confidentiality clause shall not prohibit the disclosure or use of business confidential information in the following ways and within the following scope:

7.2.1 Disclose or use business confidential information in accordance with the provisions or requirements of regulatory authorities and stock exchanges of parties;

7.2.2 Must disclose or be used for the purpose of any judicial, arbitral or other similar proceedings in connection with this Contract or any other agreement entered into pursuant to the provisions of this Contract.

7.3 The duty of confidentiality shall extend from the date of signing this Contract to the date when such information has been made public or is made public upon the approval of the disclosing party without being affected by the expiration of the term of this Contract.

Article VIII Supplementary Provisions

8.1 This Contract is irrevocable.

8.2 As of January 1, 2021 (inclusive), new cooperation business under the original cooperation agreement is no longer applicable to the *Automobile Finance Guarantee Contract* (WeBank (CGW) BZ 2020 No. 001) signed by Party A, Party B and Party C (hereinafter referred to as the “used car guarantee contract”), and the provisions of this Contract shall apply, but the existing cooperative business under the used car guarantee contract shall still be subject to the provisions in the used car guarantee contract.

8.3 This Contract is independent of the master contract and the cooperation agreements. Where the master contract and the cooperation agreements or any part thereof are invalid, this Contract shall remain valid.

8.4 In case of any discrepancy between this Contract and the cooperation agreements, this Contract shall prevail.

8.5 Any dispute arising from the performance of this Contract shall be settled by parties through negotiation; if the negotiation fails, either party may file a lawsuit to the people’s court in the place where Party A is located.

8.6 The conclusion, interpretation and dispute resolution of this Contract shall be governed by the laws of the People’s Republic of China (excluding laws of Hong Kong, Macao and Taiwan).

8.7 This Contract shall be signed by the legal representatives or authorized agents of parties on the signing date, and shall come into effect on February 4, 2021 (inclusive) after being signed (or affixed with name seals) by the legal representative or authorized agents and affixed with official seals of all parties.

8.8 The Contract shall be made in triplicate, with each party holding one copy, which has the same legal effect.

(No text below)

(No text on this page and it is the signature page of this Agreement)

Seal of Party A: [Shenzhen Qianhai WeBank Co., Ltd.] (seal)

Legal representative or authorized agent (signature or seal): [Gu Min] (seal)

Date

Seal of Party B: [Shanghai Cango Investment and Management Consultation Service Co., Ltd.] (seal)

Legal representative or authorized agent (signature or seal): [Zhang Xiaojun] (seal)

Date January 25, 2021

Seal of Party C: [Cango Financing Guarantee Co., Ltd.] (seal)

Legal representative or authorized agent (signature or seal): [Song Zhipeng] (seal)

Date

Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

Automobile Finance Project Cooperation Agreement (Contract No. [])

This Automobile Finance Project Cooperation Agreement (“this Agreement”) is signed by the following parties in Hangzhou, People’s Republic of China (for the purpose of this Agreement, excluding Hong Kong SAR, Macao SAR and Taiwan) on March 24, 2020 (the “signing date”).

1. Shanghai Cango Investment and Management Consultation Service Co., Ltd. (“cooperative institution”) is a limited liability company validly established and existing under the laws of the PRC. Its registered address is: Room 418, Building 13, No. 258 Juxun Village, Chengqiao Town, Chongming District, Shanghai, and the unified social credit code is 91310230560191810P.
2. Chongqing Wantang Information Technology Co., Ltd. (“Chongqing Wantang”) is a limited liability company validly established and existing under the laws of the PRC. Its registered address is: Room 8, 1/F, No. 23 Gongnong Road, Yuzui Town, Jiangbei District, Chongqing, and the unified social credit code is 91500000MA5UHRCQ9X.
3. Zhejiang E-Commerce Bank Co., Ltd. (“MYbank”) is a limited liability company validly established and existing under the laws of the PRC. Its registered address is 15-17/F, Block 1, Delixi Mansion, No. 28-38 Xueyuan Road, Xihu District, Hangzhou, Zhejiang Province, and the unified social credit code is 91330000343973322D.

Each of the above party is individually referred to as a “party” and collectively as the “parties”. For the purpose of this Agreement, the “Chinese laws” refer to all laws, administrative laws and regulations, rules, regulations, policy documents, provisions, decisions and policy documents of local authorities or local government departments in China, which are valid at the time of concluding this Agreement.

Whereas the parties wish to enter into cooperation on automobile finance business (the “cooperative project”), the parties hereby enter into the following agreement on the cooperative project on the basis of equality and mutual benefit.

I. Cooperation Model

In order to provide all-round and convenient vehicle purchase and vehicle purchase financing services for individual consumers, and provide appropriate risk management ability for all related parties, the parties hereto agree to, in accordance with this Agreement, cooperate in applying to financial institutions (“financial institutions”) for financing services for purchasing or renting a vehicle (“automobile financial leasing”) (hereinafter collectively referred to as “financing services for vehicle purchase”) in respect of individual consumers (“customers”), subsequent repayment, performance of contract and handling of breach of contract. Please refer to Articles II, III and IV of this Agreement for specific contents of the cooperative project:

1. Whereas the cooperative institution has one or more business qualifications and resources in terms of automobile trading, automobile sales agency, automobile financial leasing, automobile residual value disposal and repair, and transaction consulting, the cooperative institution shall be responsible for the following items ticked in (1) of this Agreement:

(1) Basic services: customer management, vehicle management and vehicle disposal, etc. Specifically, it includes:

a. Customer management:

- ✓ Collection of customer’s vehicle purchase demand
- ✓ Customer contact and complaint handling
- Customer training
- Online signing of customer contract
- ✓ Customer repayment reminder

Others: ;

b. Vehicle management:

- ✓ Delivery of vehicle
- ✓ GPS installation service

Others: ;

c. Vehicle disposal:

- ✓ Dispose the vehicle as entrusted by customers or financial institutions and pay the disposal amount to the bank on behalf of customers to repay the personal consumer loan;

2. With the guarantee qualification and the technical ability to assist in handling relevant fund transfer, MYbank shall be responsible for the following in (1) and (2):

(1) Provide guarantees;

(2) Assist the cooperative institution in handling fund transfer with financial institutions and customers.

3. Considering that Chongqing Wantang has the technical ability to engage in credit assessment and the business ability and resources for advertising promotion, it shall be responsible for the following work in (1) and (2):

(1) Auxiliary services for customer credit assessment;

(2) Business promotion and customer attraction.

4. Without the consent of Chongqing Wantang, financial institutions or MYbank (the guarantor of the loan) in the form of e-mail or other written forms, the cooperative institution shall not carry out any marketing activity in the name of Chongqing Wantang, financial institutions and/or MYbank (including but not limited to introducing specific product and rate), or exaggerate the cooperative relationship with Chongqing Wantang, financial institutions or MYbank.

5. The business model under this Agreement is only applicable to the following financial institutions:

<u>Serial No.</u>	<u>Financial institutions</u>
1	Hangzhou Branch of Postal Savings Bank of China

This Agreement shall not apply to financial institutions introduced by the cooperative institution without the written consent of MYbank. If it is necessary to add or reduce applicable financial institutions under this Agreement in the future, it may be confirmed by e-mail through the following designated e-mail addresses:

Designated e-mail of the cooperative institution: [REDACTED]

Designated e-mail of Chongqing Wantang: [REDACTED]

Designated e-mail of MYbank: [REDACTED]

6. In order to meet the needs of business development, with the deepening of business cooperation, the cooperation contents of the parties may change. The parties to the cooperation agree that, under the premise of legality and compliance, the parties shall sign supplementary agreements separately in case of any change to the aforesaid cooperation contents.

II. Matters for Which the Cooperative Institution Is Responsible

1. Basic services: customer management

(1) Collection of customer's vehicle purchase demand information

The cooperative institution shall, at the request or authorization of customers, collect customer's vehicle purchase and financing demand and relevant information ("demand information") from customers in compliance with the specific requirements (including but not limited to technical documents) proposed by Chongqing Wantang through the platform of the cooperative institution itself or its related parties and partners, and finally submit the demand information to Chongqing Wantang after the cooperative institution reviews the information through its own risk control. Chongqing Wantang shall comprehensively analyze and process the information and provide the analysis results to the cooperative institution or financial institutions. The cooperative institution shall ensure that the demand information provided by them (including but not limited to the authenticity of vehicle purchase/rental behavior, willingness and ability to repay consumer loans) is authentic, accurate, complete and valid. Besides, the cooperative institution shall ensure that sufficient authorization has been obtained from relevant individuals, so that such information can be provided to Chongqing Wantang, financial institutions and other relevant partners.

(2) Customer contact and complaint handling

The cooperative institution shall maintain good communication and contact with customers, establish customer files and update the information in real time. The cooperative institution shall be responsible for updating the progress of loan application with customers in a timely manner, giving the final loan approval results of financial institutions to customers, and maintaining communication with customers at the stage of vehicle rental, as well as keeping abreast of customers' funds and use of vehicles.

The cooperative institution, as the principal responsible party accepting and handling customer complaints, shall properly handle customer complaints. If the customer complaints involve the reputation of MYbank, Chongqing Wantang and financial institutions, the cooperative institution shall hand over the customer complaints to MYbank within one workday for coordination and handling. Where the escalated customer complaints or negative public opinion brought by improper handling of the cooperative institution may affect the reputation of MYbank, Chongqing Wantang or financial institutions, the cooperative institution shall immediately take effective measures to eliminate the adverse impact of reputational events, compensate losses of MYbank, Chongqing Wantang and financial institutions. In order to reduce customer complaints as much as possible, the cooperative institution shall obtain the consent from MYbank before taking measures that may cause customer complaints, such as car towing, in the cooperative project.

(3) Customer training

The cooperative institution shall provide training for customers regularly, including but not limited to introduction to business processes such as vehicle purchase, vehicle use, loan, repayment, vehicle management and default disposal for users, so as to promote business to users and prompt the business risk;

(4) Online signing of customer contract

The cooperative institution shall, based on the demand of MYbank, Chongqing Wantang and financial institutions, arrange the agreement on the customer side under this cooperative project on the platform of its own or its related parties and partners at the initial stage of cooperation, so that it is available for customers to sign online and file and manage contracts online. After the digital contracting system of MYbank is built and put into operation, the online signing of customer contract shall be completed by MYbank.

(5) Customer repayment reminder and other services

In order to assist financial institutions represented by Chongqing Wantang in managing/controlling post-loan risks, Chongqing Wantang entrusts the cooperative institution or its related parties to provide asset services. During the term of the loan, the services involved in the cooperative project shall be provided in accordance with the repayment reminder procedures and standards of the cooperative institution in Appendix 1 to this Agreement, and the specific procedures and standards shall be subject to the confirmation of financial institutions (through MYbank).

The cooperative institution promises to timely follow up the repayment of personal consumer loans of vehicle buyers during the cooperative project period. Once the vehicle buyers fail to repay the loans in time, the cooperative institution shall make its best efforts to fully communicate with customers in time about the overdue loans and urge customers to repay the loans in time. The cooperative institution shall take reasonable and legal measures, such as reminding customers of the repayment via SMS or phone calls, and following up the use and disposal of the vehicles by customers. Besides, it shall take appropriate measures to varying degrees according to the specific credit standing and contract performance of vehicle buyers. In any case, the cooperative institution shall not take collection measures that may have an improper impact on the cooperative project, reputation of the parties and legitimate rights and interests of vehicle purchase customers. At the request of financial institutions, Chongqing Wantang and/or MYbank, the parties may separately adjust the repayment reminder process and standards through negotiation from time to time to ensure that they are consistent with the principles of the cooperative project.

The cooperative institution shall always ensure that they have the qualifications, certificates and licenses required for the services, and establish clear business process, personnel management and training systems and complaint handling mechanisms. If Chongqing Wantang, financial institutions or MYbank (or its agent) requests access to documents or on-site inspection on such matters, contacts its management personnel or employees to learn about the situation, and makes suggestions on the development, implementation and maintenance of such processes/systems, the cooperative institution shall make every effort to cooperate, and implement the repayment reminder process and standards as required by the aforesaid three parties.

(6) Debt collection

Upon the entrustment of financial institutions, Chongqing Wantang entrusts the cooperative institution to be responsible for debt collection under the cooperative project in the name of financial institutions in accordance with the administrative measures for post-loan repayment reminder of consumer loans agreed by the parties. The cooperative institution shall have the right to entrust its related parties to be responsible for specific collection work. Where financial institutions cancel the entrustment of Chongqing Wantang, Chongqing Wantang shall timely notify the cooperative institution.

2. Basic services: vehicle management

(1) Apply for vehicle license, transfer ownership and purchase insurance

The cooperative institution shall assist customers in applying for vehicle license, transferring ownership and purchasing insurance.

(2) GPS installation service

The cooperative institution shall install the on-board GPS in the vehicle, and obtain the information of the vehicle through GPS.

3. Basic services: vehicle disposal

Where customers fail to fulfill their repayment obligations and responsibilities in respect of personal consumer loans in part or in whole (“customer overdue payment”), the cooperative institution may, according to customers’ entrustment, dispose and sell the vehicles (or entrust other third parties), and the cooperative institution shall directly transfer the disposal amount to financial institutions on behalf of the customers.

The cooperative institution shall guarantee that the money from the disposal of the vehicles shall be used by customers to repay all outstanding payment of customers' personal consumer loans to financial institutions. The cooperative institution shall ensure that the vehicle disposal price is the price agreed upon by the cooperative institution and customers with reference to the reasonable price in the market. After receiving the vehicle disposal amount, the cooperative institution shall deposit the disposal amount equivalent to the total unpaid amount of customers' personal consumer loans into the account opened at MYbank, and entrust MYbank to pay relevant disposal amount to financial institutions. Where customers entrust another third party to dispose the vehicles, the cooperative institution shall timely follow up customers' repayment of all outstanding personal consumer loans to financial institutions, and timely inform MYbank of the repayment.

III. Matters for Which MYbank Is Responsible

1. Providing guarantees

At the request of financial institutions and taking into account the service commitment of the cooperative institution under this Agreement, MYbank shall, according to the agreements reached with financial institutions and vehicle purchase customers respectively, provide joint and several liability guarantee ("MYbank's guarantee") for personal consumer loans of vehicle purchase customers to financial institutions, and the specific guarantee amount and guarantee period shall be subject to the agreement reached between MYbank and financial institutions. MYbank shall have the right to recover the loans from customers after assuming the guarantee liability.

If customers have any form of payment obligations to both the cooperative institution and MYbank, MYbank shall have priority over the cooperative institution in receiving payment from customers.

2. Assist the cooperative institution in handling fund transfer with financial institutions and customers

The cooperative institution shall entrust MYbank to carry out the fund transfer arrangements required under the business, including assisting the cooperative institution to transfer the corresponding disposal amount to financial institutions after the cooperative institution assists the disposal of vehicles to obtain the disposal amount.

MYbank shall entrust Alipay and its related parties according to the instructions of the cooperative institution, or conduct the above-mentioned operation through the account opened by the cooperative institution at MYbank. The cooperative institution shall ensure the legality and compliance of such instructions, and shall be solely liable for all losses suffered by other parties and/or third parties due to incorrect instructions. Both parties may enter into a separate agreement in respect of this matter to further clarify the rights and obligations of both parties.

IV. Matters for Which Chongqing Wantang Is Responsible

1. Auxiliary services for customer credit assessment

Chongqing Wantang shall collect the customer information from the cooperative institution, gather the information within the scope authorized by customers through its own technical capacity, conduct comprehensive analysis and processing of the information according to the requirements of financial institutions, and render the analysis results for financial institutions to decide whether to refer to the information provided by Chongqing Wantang to approve customers' loan application.

2. Business promotion and customer attraction

Chongqing Wantang shall utilize its own advertising and technical capabilities to promote online and offline business and attract quality customers to participate in the cooperative project, so as to further expand the scale of the cooperative project.

V. Matters for Which the Parties Are Responsible

1. Data privacy protection

With respect to the data involved under this Agreement, the parties shall comply with the privacy policy (<https://docs.alipay.com/policies/privacy/mybank>) of MYbank, and any other data privacy requirements of Chinese laws or regulatory authorities. The cooperative institution confirms that the information obtained and/or shared with other parties for the purpose of the cooperative project shall comply with the requirements of this Agreement, Chinese laws and regulatory authorities (including but not limited to obtaining the consent of relevant information subjects).

2. Cooperation risk control

In case of any of the following circumstances that increase the risk of the cooperative project, MYbank shall have the right to immediately suspend the provision of guarantee, and inform the cooperative institution and financial institutions at the same time. Financial institutions shall suspend the granting of personal consumer loans for this cooperative project as appropriate, and the parties shall discuss the risk control measures through negotiation, so as to reduce the NPL ratio of personal consumer loans. At the same time, MYbank may terminate this Agreement by giving a prior written notice to other parties at any time. However, for the personal consumer loans that have occurred before the aforesaid suspension and/or early termination, the parties shall continue to perform their rights and obligations in accordance with this Agreement:

- (1) Where the cooperative institution fails to duly perform any of its obligations under this Agreement and refuses to correct (including but not limited to the obligations set out in (1) of Article I of this Agreement);
- (2) Where the accumulated amount of vehicle disposal conducted by the cooperative institution in accordance with this Agreement is more than or equal to [REDACTED]% of the accumulated loan amount of financial institutions;
- (3) Where the disposal of vehicles by the cooperative institution as described in this Agreement is deemed to be unlawful, or there may be significant reputational risk or loss to this cooperative project or the parties due to customer complaints about vehicle purchase caused by price for disposal and/or purchase of vehicles for financial leasing;
- (4) There are other major adverse changes in the credit standing or contract performance capacity of the cooperative institution.

VI. Expense Arrangement

The expense arrangement under this Agreement shall apply to the following third item.

1. Service fee charged by Chongqing Wantang

Under this cooperative project, Chongqing Wantang may charge the cooperative institution service fees for providing the relevant services described in Article IV of this Agreement. The service fee rate charged by Chongqing Wantang is: /

Before system connection of the parties is completed, Chongqing Wantang shall send the detailed and summarized data of the previous month to the cooperative institution on the tenth (10th) workday of each month. After the reconciliation of both parties, the cooperative institution shall complete the payment to Chongqing Wantang within fifteen (15) workdays after receiving the VAT special invoice for service fee issued by Chongqing Wantang. Considering the manual reconciliation workload and settlement frequency, the parties shall complete their automatic system connection as soon as possible to shorten the settlement period.

2. Fund transfer service fee charged by MYbank

Under the cooperative project, MYbank may charge the cooperative institution fund transfer service fee for providing the relevant services mentioned in Articles II and III of this Agreement. The service fee rate charged by Chongqing Wantang is: /

Before system connection of the parties is completed, MYbank shall send detailed and summarized data of the previous month to the cooperative institution before the tenth (10th) workday of each month. After the reconciliation of both parties, the cooperative institution shall complete the payment to MYbank within fifteen (15) workdays after receiving the VAT special invoice for service fee issued by MYbank. Considering the manual reconciliation workload and settlement frequency, the parties shall complete their automatic system connection as soon as possible to shorten the settlement period.

3. Service fee charged by the cooperative institution

Under this cooperative project, the cooperative institution may charge Chongqing Wantang service fee for providing the relevant services described in Article II of this Agreement. The service fee rate charged by the cooperative institution is:

Annualized fee rate = annual interest rate of personal consumer loan of the vehicle purchase customer - [REDACTED]%, daily fee rate = annual fee rate/360, service fee = S {balance of daily personal consumer loan of the customer × daily fee rate}.

Before system connection of the parties is completed, Chongqing Wantang shall send detailed and summarized data of the previous month to the cooperative institution before the tenth (10th) workday of each month. After the reconciliation of both parties, Chongqing Wantang shall complete the payment to the cooperative institution within fifteen (15) workdays after receiving the VAT special invoice for service fee issued by the cooperative institution. Considering the manual reconciliation workload and settlement frequency, the parties shall complete their automatic system connection as soon as possible to shorten the settlement period.

VII. Representations, Guarantees and Commitments of the Parties

1. The parties are independent civil entities established and existing according to law, and have full capacity for civil conduct and all necessary authorizations and rights. The parties can sign this Agreement in their own name, perform their obligations under this Agreement and assume responsibilities (in terms of the cooperative institution, it shall have the ability to provide vehicle trading, disposal, collection, introduction of financial leasing services to financing customers and acceptance of vehicle mortgage by vehicle purchase customers).

2. All documents, materials and information provided by the parties to the other parties during the execution and performance of this Agreement shall be true, accurate, complete and valid. All documents concluded by the parties through the system operated by the cooperative institution when conducting the cooperative business shall be true, complete, accurate and valid. Where the aforesaid documents, materials and information are deemed to be untrue or invalid, thereby causing losses to other parties to this Agreement or financial institutions, liability for compensation shall be borne.
3. The parties shall (1) comply with Chinese laws, bear expenses and be solely responsible for carrying out the businesses referred to in this Agreement as independent entities (including but not limited to lawful and proper operation of electronic platforms, software clients and/or applications, ensure that the relevant agreements and enforcement do not violate Chinese laws, and properly handle any dispute between the cooperative institution, its employees, related parties or third party agents and vehicle purchase customers); (2) Ensure that its qualifications, licenses, approvals/licenses, filings/registrations required for the performance of this Agreement remain valid and up-to-date; (3) Take effective measures to monitor and analyze public opinions, strengthen public opinion management and properly handle public opinion incidents; and (4) Ensure that it will not have an adverse impact on the cooperative project or other parties, and assume the liability for compensation for the losses caused by its infringement of the legitimate rights of any third party; (5) May charge service fee from customers for the provision of one or more of the services set out in Article II hereof. However, the total amount of such service fee and the interest, guarantee fee, service fee or handling charge (if any) charged by financial institutions and MYbank from customers shall not violate national laws and regulations and shall not exceed 24% of the amount of personal consumer loans under any circumstance.
4. Unless otherwise provided in this Agreement or agreed by the parties, (1) the signing and performance of this Agreement shall not at any time be deemed to create any joint venture, partnership, joint operation or employment, agency or other legal relationship in which one party may act for or on behalf of the other party. The parties shall bear all responsibilities in relation to the products and/or services provided by them in accordance with applicable laws and regulations;(2) No party shall declare that it is the agent of the other party without the explicit written consent of the other party in advance, acting for or on behalf of the other party, make any representation, guarantee or commitment for or on behalf of the other party, or cause the other party to be bound by any contract or otherwise to assume any obligation or liability.
5. Where the cooperative institution needs to change the legal documents or product process signed by it and customers, it shall consult with MYbank and reach an agreement in advance.

VIII. Other Provisions on the Cooperative Project

1. Unless otherwise provided in this Agreement or agreed by the parties, the parties shall keep confidential the business, commerce, finance, technology, product information and trade secrets, the contents of a license or other non-public document or information (whether or not marked as confidential) (“confidential information”) of the other parties. The confidential information shall not be disclosed to any third party other than this Agreement without the prior written consent of the party from which the information is derived, and may be copied and used solely for the purpose of performing this Agreement, provided that the foregoing restrictions shall not apply: (1) Confidential information required by law, any regulatory authority (e.g. tax authority), judicial and/or the listing rules of the relevant exchange or required to be disclosed or used by judicial proceedings arising out of or in connection with this Agreement (provided that the disclosing party shall discuss the scope and manner of disclosure with the other parties within a reasonable time prior to such disclosure, and the party to whom the information is given shall keep confidential as far as possible); (2) Disclosure of confidential information to any professional adviser to whom it is necessary to have access in order to perform this Agreement (provided that such professional adviser shall comply with the confidentiality provisions of this Article); (3) The confidential information has been made public for reasons other than those of the parties concerned; (4) Disclose to Chongqing Wantang, MYbank, financial institutions, cooperative institution and related parties of the aforesaid parties that need to know the confidential information for the purpose of performing this Agreement; and (5) Other parties of the confidential information have approved the disclosure or use of such confidential information in writing in advance.

2. Unless otherwise provided in this Agreement or agreed by the parties, the terms and rules of this Agreement, the existence of this Agreement and the cooperative project, and any documents relating to this Agreement and the cooperative project shall be regarded as confidential information. Where the cooperative institution intends to disclose the foregoing information through public channels (including but not limited to electronic platforms, applications, news media, marketing materials or other means operated by it), it shall consult with other parties in advance to confirm the disclosure plan.

3. Unless otherwise provided in this Agreement or agreed by the parties, all information and data provided by any party to the other parties in this business shall be owned by the disclosing party and its related parties, where it involves the proprietary data and information of the disclosing party and its related parties (including but not limited to customer information, technical information, business information, proprietary technology, business model, business plan, financial budget and model, computer program, source code, algorithm, etc.). This Agreement does not transfer any ownership of any proprietary data and information, and no party shall provide any proprietary data and information provided by the other parties to any third party. Otherwise, such party shall be liable for the losses caused to other parties.

IX. Liability for Breach of Contract

1. During the term of this Agreement, if any party violates Chinese laws or any content hereof, it shall constitute a breach of contract.

2. In case of default by any party, any other party to this Agreement shall have the right to terminate this Agreement in accordance with Article XI of this Agreement, and hold the breaching party liable for breach of contract and compensation for damages.

X. Force Majeure

1. In case of an unforeseeable event of force majeure (“force majeure event”), such as earthquake, typhoon, flood, fire, military action, strike, riot, war or other event beyond the reasonable control of a party to this Agreement, which prevent such party from performing this Agreement, such party shall immediately notify the other parties without delay and provide the details and supporting documents of such event within fifteen (15) days after the notice is given, explaining the cause of the inability to perform all or part of its obligations under this Agreement or delayed performance. The parties shall negotiate to find and implement a solution acceptable to the parties to this Agreement.

2. To avoid doubt, the above-mentioned force majeure also includes the following circumstances that make the cooperative institution, MYbank or Chongqing Wantang unable to perform any service related to the cooperative project. In this case, the cooperative institution, MYbank or Chongqing Wantang shall not bear any liability for breach of contract:

(1) During the maintenance or upgrade of MYbank’s system and Alipay platform system;

(2) Failure to carry out business due to virus, Trojan, malicious program attack, network congestion, system instability, system or equipment failure, communication failure, power failure, telecommunication equipment failure or other banking reasons, third-party service defect or government behavior;

(3) Failure to carry out business due to systematic obstacles caused by force majeure factors, such as typhoon, earthquake, tsunami, flood, power failure, war and terrorist attack;

(4) Service interruption or delay caused by hacker attack, technical adjustment or failure of telecommunication department and other relevant departments or enterprises and public institutions relying on information technology, or website upgrade;

(5) The service provided by MYbank is restricted due to the laws, regulations, rules, provisions, guidelines, notices, policies and other normative documents promulgated or changed by relevant competent authorities of the state;

(6) Restrictive measures to the account and other circumstances beyond the control of MYbank (such as insufficient account balance, limited payment limit, restricted right and constrained transfer-out limit of Yu’e Bao or Yulibao), restricted withholding function by other banks).

3. In the event of force majeure, the party affected by force majeure shall not be liable for any damage, increase in costs or losses suffered by any other party as a result of the failure or delay in performing its obligations under this Agreement due to force majeure, and such failure or delay in performing this Agreement shall not be deemed a breach of this Agreement. The party affected by force majeure event shall take appropriate measures to reduce or eliminate the influence of the force majeure event, and attempt to resume the performance of the obligations delayed or hindered by the event within the shortest possible time. If the force majeure event or the influence of a force majeure event prevents a party or parties from performing all or part of its obligations under this Agreement for a period of more than one (1) month, the party not affected by the force majeure shall have the right to request to terminate this Agreement and exempt some obligations specified herein or delay the performance of this Agreement.

XI. Effectiveness, Alteration, Transfer, Term and Termination of this Agreement

1. Any change to this Agreement shall be made in writing and agreed by the parties through negotiation.
2. The cooperative institution shall not transfer any of its rights and/or obligations under this Agreement (in whole or in part) to any third party without the prior written consent of the other parties.
3. This Agreement shall take effect on the date when it is affixed with official seals of the parties, and shall be valid for one year. Unless any party raises a written objection one month prior to the expiration of this Agreement, the term of this Agreement shall be automatically extended for one year after the expiration, and the extension shall be limited to once only. The parties to this Agreement shall continue to comply with the provisions of this Agreement in respect of personal consumer loans granted prior to the expiration of this Agreement.
4. This Agreement may be terminated without any liability to be undertaken by the terminating party in the following circumstances: (1) MYbank and Chongqing Wantang notify the cooperative institution in writing 30 days in advance to terminate this Agreement immediately due to major business adjustment; (2) MYbank and Chongqing Wantang, at the request of regulatory authorities, give the cooperative institution a written notice of immediate termination of this Agreement less than 30 days in advance; (3) Where any party violates this Agreement (including the statements and guarantees made by it under this Agreement are untrue, inaccurate, incomplete, invalid or misleading), and fails to remedy within fifteen (15) days after receipt of written notice specifying the breach, the other party may immediately terminate this Agreement; (4) Where the cooperative institution violates any of the obligations under Article I and Article II and refuses to correct, MYbank may immediately terminate this Agreement without any liability for breach of contract; (5) Where one party is dissolved, bankrupt, taken over or enters into any debt repayment arrangement with its creditors, the other party may terminate this Agreement immediately; (6) Where one party closes or plans to close, or disposes of or intends to dispose of all or part of the assets that may directly affect the performance of its obligations under this Agreement, the other party may terminate this Agreement immediately; (7) Any party may terminate this Agreement immediately if the cooperative project becomes illegal in whole or in part or cannot be legally performed in accordance with any Chinese law; (8) This Agreement may be terminated as otherwise provided herein, or the parties may terminate this Agreement in writing through negotiation.
5. Except as otherwise provided in this Agreement or as otherwise agreed by the parties, the termination and expiration of this Agreement shall not affect the rights or liabilities of the parties upon or prior to the termination or expiration of this Agreement.

XII. Governing Laws and Dispute Resolution

1. The conclusion, effectiveness, performance, alteration, interpretation and termination of this Agreement shall be governed by Chinese laws.
2. In case of any dispute arising from the contents of this Agreement or its implementation, both parties shall try their best to solve it through friendly negotiation; if the negotiation fails, any party may file a lawsuit to Xihu District Court of Hangzhou, China.

XIII. Supplementary Provisions

1. The titles of this Agreement are set up for the convenience of reference only and shall not affect the interpretation hereof.
2. This Agreement shall be made in six copies, with each party holding two copies, each of which has the same legal effect.

[No text below]

Shanghai Cango Investment and Management Consultation Service Co., Ltd.

Seal: [Shanghai Cango Investment and Management Consultation Service Co., Ltd.] (seal)

March 24, 2020

Chongqing Wantang Information Technology Co., Ltd.

Seal: [Chongqing Wantang Information Technology Co., Ltd. 5001141079687] (seal)

March 24, 2020

Zhejiang E-Commerce Bank Co., Ltd.

Seal: [Zhejiang E-Commerce Bank Co., Ltd. 3301060106867] (seal)

March 24, 2020

Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

Automobile Finance Project Counter-guarantee Agreement
(contract number [])

This Automobile Finance Project Counter-guarantee Agreement] (“this Agreement”) is signed by the following parties in Hangzhou, People’s Republic of China (for the purpose of this Agreement, excluding Hong Kong SAR, Macao SAR and Taiwan) on March 24, 2020 (the “signing date”).

1. Cango Financing Guarantee Co., Ltd. (“financing guarantee company” or “counter-guarantor”) is a limited liability company validly established and existing under the laws of the PRC, and is qualified to conduct financing guarantee business. Its registered address is: No. 75-1 Jinfeng Street, Shenfu New Area, Liaoning Province, and the unified social credit code is 91211500MA0Y2MA615.
2. Zhejiang E-Commerce Bank Co., Ltd. (“MYbank”) is a limited liability company validly established and existing under the laws of the PRC. Its registered address is 15-17/F, Block 1, Delixi Mansion, No. 28-38 Xueyuan Road, Xihu District, Hangzhou, Zhejiang Province, and the unified social credit code is 91330000343973322D.

Each of the above party is individually referred to as a “party” and collectively as the “parties”. For the purpose of this Agreement, the “Chinese laws” refer to all laws, administrative laws and regulations, rules, regulations, policy documents, provisions, decisions and policy documents of local authorities or local government departments in China, which are valid at the time of concluding this Agreement.

Whereas:

1. MYbank and its cooperative financial institutions have signed a cooperation agreement on automobile finance business to jointly carry out automobile finance business. Among which, cooperative financial institutions shall issue financing funds to individual buyers (“borrowers” or “customers”); MYbank shall provide cooperative financial institutions with one or more services such as lending and repayment services, guarantee services, credit inquiry services, among others.
2. The borrower applies to the cooperative financial institutions for financing services for purchasing or renting a vehicle (hereinafter collectively referred to as “automobile financing services”), and signs an automobile financing contract, the specific name of which is subject to the actually-signed contract (“loan contract” or “master contract”).
3. In order to ensure that the borrower fulfills the above-mentioned loan contract, MYbank, as a guarantor, has signed a guarantee contract (“guarantee contract”) with cooperative financial institutions and the borrower, providing joint and several guarantee liability for the above-mentioned borrower regarding the debt to cooperative financial institutions.

4. The counter-guarantor is willing to provide counter-guarantee to MYbank for the above-mentioned borrower's automobile financing services, which is a joint and several liability guaranty. In order to ensure the fulfillment of the aforementioned agreement, the borrower mortgages the vehicle purchased to the counter-guarantor as a guarantee and has gone through third-party mortgage registration formalities designated by the mortgagee or the counter-guarantor. With regard to the mortgage registration, MYbank should provide reasonable assistance to the counter-guarantor.

5. Both parties, in line with the principle of equality, mutual benefit and good faith, agree to enter the following agreement in accordance with Chinese laws.

I. The Principal Creditor's Right Guaranteed by the Counter-guarantor

The principal creditor's right guaranteed by the counter-guarantor refers to the right of recourse to the counter-guarantor in the case of overdue repayment by individual buyers in accordance with the automobile finance business agreement signed with cooperative financial institutions in the following table, after MYbank bears the guarantee liability within a certain proportion of the total outstanding loan of the cooperative financial institutions. The specific proportion of guarantee for cooperative financial institutions is as follows:

<u>No.</u>	<u>The specific proportion of guarantee for cooperative financial institutions</u>	<u>Guarantee proportion (a certain proportion of the accumulated amount of the loan)</u>
1	Hangzhou Branch of Postal Savings Bank of China	[REDACTED]%

If the above-mentioned bank and the parties change the guarantee proportion, they shall agree separately in the form of a supplementary agreement.

II. Scope of Counter-guarantee

1. According to the relevant agreements of the loan contract and the guarantee contract, MYbank shall bear the joint and several liability guaranty to the cooperative financial institutions within the agreed guarantee scope and guarantee limit for the borrower. If the borrower violates the loan contract and constitutes a breach of contract under the loan contract or violates any payment obligations under other documents signed by the borrower, MYbank has the obligation to fulfill its guarantee obligations.

2. The scope of guarantee provided by the counter-guarantor under this Agreement shall be: all the amount repaid by MYbank on behalf of the borrower and the interest and other expenses and losses since the date of payment, including but not limited to the payment of principal, interest and penalty interest on the loan, excluding relevant handling fees, service fees, liquidated damages, damages and realization of claims (including but not limited to attorney fees, notarization fees, appraisal fees, litigation fees and reminders).

III. Guarantee Period of Counter-guarantee

Both parties agree that the counter-guarantee period of a single loan shall be calculated separately within [REDACTED] years from the date on which MYbank actually performed the guarantee obligation to the cooperative financial institutions for the borrower.

IV. Means of Guarantee

1. The counter-guarantor shall bear joint and several liability guaranty within the scope of guarantee. The counter-guarantor waives any right of defense as the guarantor of the counter-guarantee.
2. Where the vehicle buyer fails to partially or fully fulfill its repayment obligations and responsibilities in respect of the loan contract (“overdue repayment by the vehicle buyer”), the overdue repayment status of the vehicle buyer shall not exceed the stage before the [REDACTED] day (“the stage before the [REDACTED] day”). Where different cooperative financial institutions have different requirements on the time of the disposal stage, MYbank shall separately notify the counter-guarantor by e-mail or other written notices of the specific time before the start of the cooperation. The counter-guarantor shall promptly take legal collection and assist the vehicle buyer to dispose of the vehicle or take other appropriate measures, to ensure that cooperative financial institutions receive all unpaid payments from loan contracts in a lump sum at the stage before the [REDACTED] day. Otherwise, MYbank shall have the right to deduct the deductible working fund from the counter-guarantor’s account (as defined below) from the [REDACTED] day until the above-mentioned agreement obligations are fully fulfilled.

In addition, since the [REDACTED] day, as long as the aforementioned obligations of the counter-guarantor are not fully fulfilled, the counter-guarantor shall continue to collect or purchase vehicle ownership from the vehicle buyer to ensure that the cooperative financial institutions receive all unpaid payments from the loan contract of the vehicle buyer in a lump sum. Otherwise, MYbank has the right to deduct the deposit of the counter-guarantor (as defined below) from the [REDACTED] day until the above-mentioned obligations of the counter-guarantor are fully fulfilled.

3. In order to ensure that the counter-guarantor fulfills its obligations, the counter-guarantor shall pay a deposit to MYbank. The deposit amount shall not be less than the sum of the principal creditor’s right undertaken by MYbank to the cooperative financial institutions as stipulated in Article 1 of this Agreement, and the security deposit amount shall be equal to S (the financing accumulated amount * guarantee proportion). Where the borrower fails to fulfill or fully fulfill the obligations and responsibilities stipulated in the loan contract and/or the guarantee contract, [MYbank may notify the counter-guarantor to assume the counter-guarantee liability by e-mail through the designated mailbox agreed in Article 1, and deduct the corresponding amount from the deposit within [REDACTED] working day(s)]. At the same time, the counter-guarantor shall make up the deposit within [REDACTED] working days. Where the counter-guarantor delays the payment of the deposit, the liquidated damages of [REDACTED]% shall be paid for each day overdue.

The security deposit account of MYbank:

Account name: Cango Financing Guarantee Co., Ltd.

Account No.: [REDACTED]

Opening bank: Zhejiang E-Commerce Bank Co., Ltd. ("MYbank")

4. The counter-guarantor shall pay RMB[REDACTED] to MYbank within five working days from the date of signing this Agreement as the initial deposit.

5. If this Agreement is terminated in accordance with Article 12 and there is still a balance of the deposit, MYbank will return it to the counter-guarantor within five working days.

The collection account of counter-guarantor:

Account name: Cango Financing Guarantee Co., Ltd.

Account No.: [REDACTED]

Opening bank: Zhejiang E-Commerce Bank Co., Ltd. ("MYbank")

6. The security deposit deposited by the counter-guarantor in MYbank is an agreed deposit, which pays interest quarterly, and the interest is calculated and paid according to the benchmark annual interest rate of the current agreed deposit announced by the People's Bank of China. If the People's Bank of China adjusts the benchmark interest rate of the agreed deposit during the contract period, the interest of the deposit shall be calculated and paid at the adjusted benchmark interest rate.

V. Subordination of Creditor's Right

The counter-guarantor hereby irrevocably and unconditionally agrees that any creditor's right or recourse of the counter-guarantor against the borrower shall be inferior to the creditor's right or recourse held by MYbank against the borrower, the counter-guarantor does not exercise any rights or claims against the borrower to compete with MYbank.

VI. Continuing Guarantee

The guarantee under this Agreement is a continuing guarantee and the counter-guarantor shall bear all responsibilities under this Agreement without being affected by any factors, including:

- (1) Any defects in the rights of MYbank to the borrower;
- (2) The bankruptcy, takeover, insolvency, liquidation, dissolution, incapacitation or any restrictions of MYbank, the death of the borrower, counter-guarantor or any other person;
- (3) Any other act, event or situation that may affect or discharge this Agreement or counter-guarantor's obligations under this Agreement.

In addition, if MYbank assumes the guarantee liability in accordance with the guarantee contract, the counter-guarantor shall fulfill the guarantee liability of the counter-guarantor to MYbank under this Agreement.

VII. Statements, Guarantees and Commitments of Both Parties

1. Both parties are legally established and legally existing independent civil subjects, have full civil capacity and all necessary authorizations and rights, and are able to sign this Agreement, fulfill their obligations and bear responsibilities in their own name (the counter-guarantor shall have the business qualification to provide counter-guarantee).
2. During the validity period of this Agreement, both parties confirm that: (1) All documents, materials and information provided by both parties to MYbank during the signing and implementation of this Agreement are true, accurate, complete and valid. (2) There are no events between the parties that will have a significant adverse impact on their financial position and normal operations, and no bankruptcy or liquidation proceedings have been carried out; and (3) Both parties ensure that the qualifications, permits, approvals/licenses, filings/registrations required for the fulfillment of this Agreement remain valid and up-to-date at all times.
3. Except as otherwise provided in this Agreement or as otherwise agreed by the parties, (1) The signing and fulfillment of this Agreement shall not at any time be deemed to create any joint venture, partnership, joint operation, employment, principal-agent or other legal relationship between the parties that may enable one party to act for or on behalf of the other. Both parties shall bear all responsibilities relating to the products and/or services respectively in accordance with applicable laws and regulations for their own products and/or services. (2) Neither party shall, without the prior express written consent of the other party, declare it to be the agent of the other party, to act for or on behalf of the other party, to make any representations, warranties or undertakings for or on behalf of the other party, or to bind the other party to any contract or otherwise subject the other party to any obligation or liability.

VIII. Notification

All notices, requests, claims, requirements and other communications under this Agreement shall be in writing and delivered by (1) specialized personnel; (2) postage-paid airmail; (3) postage-paid air express; (4) facsimile; or (5) e-mail, according to actual conditions. All the above notices shall be deemed to have been delivered or received in accordance with the following provisions: (1) receipt shall prevail in the case of delivery by specialized personnel; (2) on the fifth (5th) day of delivery by post; (3) on the second (2nd) day after entrusting to reputable express companies; (4) 24 hours after the sending of fax and upon receipt of the relevant electronic confirmation; (5) when the message is sent to the server of the e-mail address designated by the other party by e-mail.

Cango Financing Guarantee Co., Ltd.

Address: No. 75-1 Jinfeng Street, Shenfu New Area Liaoning Province

Zip code: 110172

Tel: [REDACTED]

E-mail: [REDACTED]

Recipient: Luo Gu

Copy: [REDACTED]

Zhejiang E-Commerce Bank Co., Ltd. ("MYbank")

Address: 15-17/F, Block 1, Delixi Mansion, No. 28-38 Xueyuan Road, Xihu District, Hangzhou, Zhejiang Province

Zip code: 310012

Tel: [REDACTED]

E-mail: [REDACTED]

Recipient: Pan Junjie

Copy: [REDACTED]

If one party changes its address during the validity term of this Agreement, it shall immediately notify the other party in writing.

IX. Confidentiality

1. Unless otherwise provided in this Agreement or otherwise agreed by both parties, one party shall keep confidential the contents of the other party's transactions, business, finance, technologies, product information, trade secrets, licenses or other non-public documents or information (whether marked as confidential or not) ("confidential information") and shall not disclose it to any third party other than this Agreement without the prior written consent of the source of the confidential information, and reproduce and use the confidential information only for the purposes of this Agreement, but the following circumstances are not subject to the foregoing restrictions: (1) disclosure of the confidential information to any regulatory authority (such as tax authorities), judicial and/or relevant exchange listing rules, or judicial proceedings arising out of this Agreement for legal use (provided that the disclosing party shall discuss with the other party the scope and manner of disclosure at a reasonable time prior to disclosure and let the informed party keep it confidential as much as possible); (2) disclosure of the confidential information to professional advisers when the other party has to know the confidential information in order to fulfill this Agreement (provided that the professional advisers shall comply with the secrecy provisions of this article); (3) public knowledge of the confidential information for reasons beyond the control of both parties; (4) disclosure of the confidential information to MYbank, the counter-guarantor and the related parties of the above-mentioned parties that have to know the confidential information in order to fulfill this Agreement; (5) under the written consent of the disclosure or use of confidential information.

2. Except as otherwise provided in this Agreement or otherwise agreed by both parties, the terms and conditions of this Agreement, the existence of this Agreement and any documents related to this Agreement shall belong to confidential information. If the counter-guarantor intends to disclose the above-mentioned information through any public channel (including but not limited to the electronic platform, applications, news media, marketing materials or other means operated by the counter-guarantor), it shall consult with MYbank in advance to confirm the disclosure scheme.

3. Except as otherwise provided in this Agreement or otherwise agreed by both parties, for all information and data provided by either party to the other party in this Agreement, if it involves the proprietary data and information of the disclosing party and its related parties (including but not limited to customer information, technical information, business information, know-how, corporate business model, business plan, financial budget and model, computer programs, source code, algorithms, among others), the ownership belongs to the disclosing party and its affiliated parties, and this Agreement does not transfer any ownership of any proprietary data and information, and one party shall not provide the proprietary data and information provided by the other party to a third party, otherwise, such party shall be liable for the losses caused to the other party.

X. Liabilities for Breach of Contract

1. During the term of this Agreement, if either party violates the Chinese laws or any content hereof, it shall constitute a breach of contract.

2. In the event of a breach of contract by either party, the other party has the right to terminate this Agreement and investigate the breaching party's liability for breach of contract and damages in accordance with law.

XI. Force Majeure

1. In the event of an earthquake, typhoon, flood, fire, military campaign, strike, riot, war, or other unforeseeable force majeure event ("force majeure event") beyond the reasonable control of the counter-guarantor, the counter-guarantor shall immediately notify MYbank without delay and provide details and supporting documents of such events within fifteen (15) days after the notification, and explain the reasons for the inability or delay in the fulfillment of all or part of his obligations under this Agreement. The two parties shall find and implement a solution acceptable to both parties to the agreement through consultation.

2. In the event of an event of force majeure, the party affected by force majeure shall not be responsible for any damage, cost increase or loss suffered by the other party as a result of the failure or delay in the fulfillment of its obligations under this Agreement due to an event of force majeure, and such failure or delay in the fulfillment of this Agreement shall not be deemed as a breach of this Agreement. The party affected by force majeure event shall take appropriate measures to reduce or eliminate the influence of the force majeure event, and attempt to resume the performance of the obligations delayed or hindered by the event within the shortest possible time. If an event of force majeure or the influence of an event of force majeure hinders one or both parties from fulfilling all or part of their obligations under this Agreement for more than one (1) month, the party not affected by force majeure shall have the right to request termination of this Agreement and waive part of its obligations under this Agreement or delay the fulfillment of this Agreement.

XII. Entry into Force, Modification and Termination of the Agreement

1. This Agreement shall enter into force from the date on which the counter-guarantor and MYbank affix the official seal, until (1) the counter-guarantor has completed the counter-guarantee obligations agreed upon by MYbank; (2) the guarantee period of the counter-guarantee expires, whichever is earlier.
2. Any alterations to this Agreement shall be agreed upon by both parties through consultation and shall be made in writing.
3. This Agreement may be terminated by mutual agreement or by MYbank through giving notice in writing to the counter-guarantor 30 days in advance.
4. Without the consent of MYbank, the counter-guarantor shall not transfer any of its rights and/or obligations under this Agreement to any third party.
5. Without prejudice to other provisions in this Agreement, this Agreement shall be legally binding on both parties and their respective successors and assignees generated in accordance with the law, provided that the successors and assignees of the counter-guarantor shall have the qualification of financing guarantee business.

XIII. Governing Law and Dispute Resolution

1. The conclusion, effectiveness, performance, alteration, interpretation and termination of this Agreement shall be governed by Chinese laws.
2. In case of any dispute arising from the contents of this Agreement or its implementation, both parties shall try their best to solve it through friendly negotiation; if the negotiation fails, either party may file a lawsuit to Xihu District Court of Hangzhou, China.

XIV. Supplementary Provisions

1. The titles of this Agreement are set up for the convenience of reference only and shall not affect the interpretation hereof.
2. This Agreement is made in six copies, with each party holding three copies, each of which has the same legal effect.

[No text below]

Cango Financing Guarantee Co., Ltd.

Seal: [Cango Financing Guarantee Co., Ltd.] (Seal)

Zhejiang E-Commerce Bank Co., Ltd.

Seal: [Zhejiang E-Commerce Bank Co., Ltd. 3301060106867] (seal)

March 24, 2020

Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

Puxi Branch of Bank of Shanghai Co., Ltd.

Shanghai Chejia Financing Lease Co., Ltd.

**Shanghai Cango Investment and Management Consultation
Service Co., Ltd.**

Personal Consumer Loan Business

Cooperation Agreement

July 2018

Shanghai, China

Party A: Puxi Branch of Bank of Shanghai Co., Ltd. (Hereinafter referred to as “Party A”)

Address: Building 2, No. 595 Caoxi North Road, Xuhui District, Shanghai

Legal representative (responsible person): Wang Ming

Tel: [REDACTED]

Party B: Shanghai Chejia Financing Lease Co., Ltd. (Hereinafter referred to as “Party B”)

Address: 16/F, Building 2, Youyou Century Square, No. 428 Yanggao South Road, Lujiazui Finance & Trade Zone, China (Shanghai) Pilot Free Trade Zone

Legal representative (responsible person): Zhang Xiaojun

Tel: [REDACTED]

Party C: Shanghai Cango Investment and Management Consultation Service Co., Ltd. (Hereinafter referred to as “Party C”)

Address: Room 418, Building 13, No. 258 Juxun Village, Chengqiao Town, Chongming County, Shanghai

Legal representative (responsible person): Zhang Xiaojun

Tel: [REDACTED]

Chapter I General Provisions

Article I. Party A is a financial institution approved to engage in various credit businesses, including personal consumer loan business, and can provide personal consumer loans to eligible retail customers.

Article II. Party B is a financial leasing company approved to engage in the automobile financial leasing business, with rich industry experience and business network.

Article III. Party C is a company with rich experience in providing system support and various loan services to enterprises in the field of automobile consumption.

Article IV. Party A, Party B and Party C wish to, through cooperation, make use of their respective advantages to better provide financial services for automobile retail loans to eligible retail customers.

Chapter II Basic Definitions

Article V. “Personal consumer loan”: refers to the “Shanghai Chejia automobile financial leasing consumer loan” which Party A, Party B and Party C agreed to cooperate on.

Article VI. “Retail customer”: means the borrower specified in the loan contract who is recommended by Party C and finally approved by Party A and Party B.

Article VII. “Loan-related person”: refers to the co-borrower and the guarantor. Co-borrower means a natural person who jointly assumes the obligations of retail customers under a loan contract and whose signature is a necessary condition for a retail customer to obtain a loan (the natural person includes the spouse of a retail customer). Guarantor means any party which, under a loan contract, guarantees or/and indemnifies a retail customer for its repayment obligation or liability for satisfaction, and the other party that has assumed the rights and obligations of the guarantor through assignment or legal enforcement.

Article VIII. “Party A’s acceptance condition”: means the condition under which Party A accepts a retail customer’s loan application, which may be amended by Party A from time to time. However, any amended condition shall be notified to Party B and Party C in writing.

Article IX. “Loan application materials”: refer to the materials and documents containing the name of a retail customer and other relevant information submitted to Party A through the channels and in the forms recognized by Party A.

Article X. “Leased vehicle”: means the vehicle leased under the personal financial leasing consumer loan pursuant to the loan contract.

Article XI. “Loan contract”: means a contract signed by Party A with the retail customer, the co-borrower (if any) and the guarantor (if any), whereby Party A provides financial leasing consumer loan for the retail customer and the loan-related person.

Article XII. “Interest rate”: means the loan interest rate applicable to the personal consumer loan of a retail customer under a loan contract, including but not limited to normal loan interest rate and overdue loan interest rate.

Article XIII. “Interest”: refers to the amount that a retail customer shall pay to Party A according to the applicable loan interest rate under a loan contract, including but not limited to normal interest and overdue interest (default interest).

Article XIV. “Debtor”: means a person who is obligated to pay off debts to Party A and Party B based on a loan contract and mortgage contract, including but not limited to borrower (retail customer), co-borrower, guarantor and other loan-related person.

Article XI. “Repayment date”: refers to the date when the retail customer actually repays the relevant payables under the loan contract to Party A.

Article XVI. “Dealer”: means an automobile dealer who sells a leased vehicle to a retail customer and issues a purchase invoice in its own name based on the retail automobile demand of the retail customer.

Article XVII. “Purchase price”: refers to the price actually paid by the vehicle purchaser when buying the vehicle at the dealer’s premises (excluding various additional taxes, fees and premiums).

Article XVIII. “Market guidance price”: refers to the suggested sales price set by the automobile manufacturer according to the market conditions when the automobile leaves the factory.

Article XIX. “Automobile accessories”: refer to navigation equipment, physical accessories such as exterior film and charging device, as well as intangible accessories and services such as extended automobile warranty and automobile insurance. In this Agreement, it refers to the automobile purchase tax that shall be paid according to the national regulations, insurance fees agreed by the insurance company and automobile positioning equipment.

Article XX. “Loan account”: refers to the account opened by Party B with Party A for receiving the automobile financial leasing consumer loan, specifically:

Account name: Shanghai Chejia Financing Lease Co., Ltd.

Account number: [REDACTED]

Deposit bank: Luwan Sub-branch of Bank of Shanghai

Article XXI. “Repayment account”: refers to the account opened by Party B with Party A for collecting loan repayment funds. This account is supervised by Party A, and Party A deducts funds for repayment according to the personal customer repayment plan generated in its own system, specifically:

Account name: Shanghai Chejia Financing Lease Co., Ltd.

Account number: [REDACTED]

Deposit bank: Luwan Sub-branch of Bank of Shanghai

Chapter III Definitions of Products

Article XXII. Shanghai Chejia automobile financial leasing consumer loan (hereinafter referred to as “consumer loan” or “this consumer loan”) refers to the financial leasing relationship between the retail customer and Shanghai Chejia. At the same time, Party B shall apply to Party A for consumer loan to pay the financial leasing amount. The purpose of the loan is limited to the payment of financial leasing amount.

Article XXIII. Loan limit

(I) In this consumer loan, the loan limit of a single automobile financial leasing consumer loan shall be RMB[REDACTED], and the maximum amount shall be RMB[REDACTED], and shall not exceed [REDACTED]% of the value of the purchased leased vehicle; the maximum amount of a single financial leasing consumer loan for accessories shall be RMB[REDACTED], and shall not exceed [REDACTED]% of the value of the purchased leased vehicle.

(II) The value of the leased vehicle under this consumer loan shall be determined according to the actual purchase price or the market guidance price, whichever is lower.

Article XXIV. Loan period

The loan period of this consumer loan shall be [REDACTED] year at the minimum and not exceed [REDACTED] years at the maximum, which shall be subject to the time limit specified in the financial leasing consumer loan contract approved by the retail customer and Party A.

Article XXV. Loan interest rate

(I) The interest of the loan is calculated at a fixed interest rate, and the interest rate shall not be adjusted during the loan term;

(II) The interest rate of the loan shall be the rate specified in the loan contract signed with the borrower;

(III) The date of interest rate selection shall be the value date;

(IV) The penalty interest rate of overdue loan shall be [REDACTED]% higher than the loan interest rate.

Article XXVI. Repayment method

(I) This consumer loan adopts the repayment method of average capital plus interest on a monthly basis, and the repayment date is the corresponding date of the loan date;

(II) This consumer loan only supports full prepayment;

(III) The grace period for this overdue consumer loan is [REDACTED] natural days;

(IV) This consumer loan shall not be subject to the penalty for prepayment.

Chapter IV Loan Acceptance

Article XXVII. The list of application materials required by the retail customer under this consumer loan project shall be formulated by Party A. Party A shall entrust Party C to receive all paper and electronic materials required by retail customers and loan-related persons, and ensure all materials are consistent with the loan application materials submitted to Party A; Party C shall ensure the quality of all customer information provided to Party A. In case of any loss caused to Party A due to any problem in the authenticity, legality, compliance and consistency of the customer information provided by Party C, Party C shall be responsible for compensation within [REDACTED] workdays.

Article XXVIII. Party C shall ensure that any document that needs to be signed by retail customers and loan-related persons shall be signed in person.

Article XXIX. Party A shall be responsible for verifying whether the loan requirements or information of retail customers involved in the loan application materials are true or accurate.

Chapter V Loan Approval

Article XXX. Party A shall formulate the loan approval policy under this consumer loan, including the access, credit granting and relevant data elements of contract signing of retail customers (see Appendix 2 for details). Party A shall entrust Party C to be responsible for screening the loan application materials according to the above policy. Party C shall timely submit to Party A the information of retail customers and loan-related persons that are deemed to meet the acceptance conditions of Party A after screening for approval through system connection. After receiving the application for approval submitted by Party C, Party A's system shall conduct pre-approval and formal approval in a timely manner. Party A shall examine the loan application materials independently and without any influence from any party, and shall have the right to decide whether to finally approve the application at its own discretion, and notify Party B of the examination decision through system connection. Party A's examination decision shall be the final reply decision of the loan application.

Article XXXI. Both parties agree that the number of pre-approval applications of each retail customer shall be [REDACTED], and the period of validity for pre-approval shall be [REDACTED] natural days, subject to the system control of Party A and relevant agreements in Appendix 2.

Article XXXII. Where Party A makes any change or adjustment to the loan approval policy under this consumer loan, it shall notify Party C in writing. In case of any discrepancy between Party A and Party C with respect to the change of the loan approval policy, a separate negotiation shall be conducted.

Chapter VI Contract Signing and Loan Granting

Article XXXIII. The loan application finally approved by Party A shall be deemed as a business deal under this consumer loan. For each loan application finally approved by Party A, it shall ensure that Party B has signed the Vehicle Financial Leasing Contract and Mortgage Contract with retail customers and loan-related persons, specifying that the retail customers shall handle the automobile financial leasing business. All business formalities shall be completed. Party A shall sign the Financial Leasing Consumer Loan Contract and receipt for a loan with retail customers and loan-related persons, clarifying that the loan purpose is only limited to the payment of financial leasing. Retail customers and loan-related persons shall be obligated to repay the loan to Party A, and Party A shall enjoy the rights and interests corresponding to the loan.

Article XXXIV. Party A shall entrust Party C to sign relevant legal documents with retail customers and loan-related persons, and ensure that any document that needs to be signed by retail customers and loan-related persons shall be signed in person.

Article XXXV. For the loan application finally approved by Party A, Party A agrees to apply for the online digital certificate and sign the contract through the Anxinsign platform certified by CFCA, or sign the paper contract. The paper contract and the electronic contract shall have the same legal effect, and the contract party applied by Party A on the Anxinsign platform shall be Luwan Sub-branch under the jurisdiction of Party A. Party A authorizes Party B to sign the Financial Leasing Consumer Loan Contract with the above-mentioned retail customers in the name of Luwan Sub-branch under the jurisdiction of Party A within the validity period of the single loan contract, which shall take effect immediately after being signed. During the cooperation period, if Party B signs a contract with a retail customer whose loan application was not approved by Party A in the name of Luwan Sub-branch under the jurisdiction of Party A, or if Party B signs any legal document without Party A's consent in the name of Party A, Party B shall bear the legal liabilities arising therefrom and compensate Party A for all losses.

Article XXXVI. Party A shall entrust Party C to conduct a preliminary review of the loan granting materials to ensure that all the formalities for offline contracting by retail customers and loan-related persons have been completed, including but not limited to confirming that the financial leasing business between Party B and retail customers has been completed, confirming that retail customers have completed relevant formalities such as signing of loan contracts, and being responsible for the authenticity of loan granting materials. After being approved, Party B shall automatically transmit the loan application to Party A through the system, and Party A shall notify Party B of the loan approval result through the system after approving the loan. Where retail customers fail to complete the online/offline contracting or relevant information is incomplete or untrue, but Party B has sent the loan application to Party A and is granted with loan, Party B shall bear all the losses incurred to Party A.

Article XXXVII. For the loan that has been approved by Party A for final disbursement, Party A shall directly pay the loan to the "loan account" opened by Party B. Party A shall ensure that all the loans that have passed the granting approval are paid to the loan account of Party B in full before 18:00 every day, and Party B shall not send loan granting applications to Party A after 18:00 every day. The system of Party A shall automatically control the repayment date of the loan application on the 29th, 30th and 31st of each month as the 27th.

Article XXXVIII. Under any loan, the rights and obligations of Party A and retail customers and loan-related persons shall comply with the provisions of the Financial Leasing Consumer Loan Contract.

Chapter VII Repayment

Article XXXIX. When retail customers repay this consumer loan upon maturity, ahead of maturity or overdue, they shall deposit the repayment fund into the repayment account designated by Party A within the time limit specified in the loan contract by itself or entrusting a third-party payment company.

Article XL. Party A shall deduct the repayment funds of retail customers from the repayment account on the agreed repayment date of this consumer loan or after receiving the repayment application from retail customers, and realize the recovery of the principal and interest of each consumer loan.

Article XLI. Party A shall notify Party B of the repayment result of retail customers and other information in a timely manner after the repayment is completed.

Chapter VIII Credit Investigation Management

Article XLII. Party A shall entrust Party C to be responsible for signing the written authorization (hereinafter referred to as the “authorization”, see Appendix 3 for details) in person and legally by retail customers and loan-related persons (borrower, co-borrower (if any), guarantor (if any) indicated in relevant loan application materials. The authorization enables Party A to legally disclose and inquire about relevant information of the borrower, co-borrower (if any) and guarantor (if any) to the personal credit information basic database of the People’s Bank of China and other relevant government agencies, public security organs, procuratorate and courts, and use such information to the extent permitted by laws, regulations, rules and other normative documents.

Article XLIII. In the case of obtaining the above-mentioned authorization, Party A may separately submit and inquire about relevant information of the borrower, co-borrower (if any), guarantor (if any) and guarantor’s spouse (if any) to the personal credit information basic database of the People’s Bank of China and other relevant government agencies, public security organs, procuratorate and courts, and use such information to the extent permitted by laws, regulations, rules and other normative documents.

Article XLIV. All parties agree that Party A shall report the personal credit information of retail customers and loan-related persons to the People’s Bank of China, and Party B shall actively cooperate with Party A in handling customer objections, and timely feedback the handling results to Party A.

Chapter IX Operation Quality Guarantee Measures

Article XLV. Party C shall assist Party A in completing post-loan management, and shall be responsible for front-end customer acquisition, follow-up call and system building under this consumer loan, and undertake operation quality guarantee for the above-mentioned work.

Article XLVI. Party B shall ensure that it shall not release the mortgage relationship with retail customers before the consumer loan of retail customers is settled.

Article XLVII. If a single retail customer fails to repay or repay the principal and interest of the loan in full amount for two consecutive periods, or fails to pay the loan due date (including acceleration of maturity) within [REDACTED] days after the loan is due, or in case of any other default under this Agreement, Party B shall, within [REDACTED] days after the occurrence of the default, return the remaining outstanding principal and interest and default interest in a lump sum in advance. The total amount of the remaining loan principal and interest payable and the repayment order shall be subject to the accounting in the system of Party A or the agreement in the loan contract. The differences in default interest receivable caused by systems of Party A, Party B and Party C shall be checked by the three parties on a monthly basis, and the differences shall be included in the cooperative management remuneration. Party C shall issue relevant VAT invoices to Party A. (See Appendix 7 for specific payment methods and procedures). In case of any dispute between retail customers and Party B, Party B shall not be affected to refund the financial leasing amount.

Article XLVIII. Party B shall deposit a certain amount of fund as the security deposit for the project in order to guarantee Party B's performance of the obligations required by the operation quality guarantee measures. The initial security deposit for the project shall be RMB[REDACTED]. With the expansion of the project scale, the security deposit shall be increased by RMB[REDACTED], which shall be subject to the written consent of the three parties. The margin is deposited into the margin account opened by Party B with Party A (account name: Shanghai Chejia Financing Lease Co., Ltd., account number: [REDACTED]).

Chapter X Post-Loan Management

Article II. After the granting of this consumer loan, Party C shall be responsible for all customer service, and retail customers shall not apply for changing the loan period, loan interest rate and other services.

Article L. Party C shall assist Party A in completing the post-loan management of this consumer loan. Party C shall be mainly responsible for post-loan services for retail customers, follow-up call, overdue collection, disposal of non-performing loans and post-loan data sharing. Party A shall be mainly responsible for loan fund monitoring, loan data spot check, loan risk monitoring and post-loan data analysis.

Article LI. Party B shall submit business and risk reports to Party A on a quarterly basis, including: total balance of the Company's loan, overdue balance and NPL balance; cooperation between the Company and other financial institutions; review and approval, risk exposure and risk prevention and control measures during the reporting period; post-loan collection and measures during the reporting period.

Article LII. Party B and Party C shall not publicize the information in the name of Party A, or collect interest from customers in any form, and guarantee the security of customer information.

Article LVIII. Party A, Party B and Party C shall hold regular working meetings. The contents of meetings shall cover the current development of the business, the objective plan for the next stage and development strategies (including but not limited to the amount of consumer loans, product allocation plan, access standard of customer and borrower, collection measures and disposal of NPL). The meetings shall be mainly in the form of teleconference and on-site meeting, which shall be held at least once every quarter.

Article LIV. Within the scope permitted by applicable laws and subject to regulatory compliance requirements, Party C shall provide Party A with all post-loan data within 60 days.

Article LV. Party B shall send the consumer loan application reconciliation statement to Party A for system check every day.

Article LVI. Party A shall entrust Party C to conduct a verification follow-up call every quarter (the list shall be provided by Party A), and fill in the *Batch Cluster Loan Follow-up Record Book* (see Appendix 4), register the *Post-loan Verification Follow-up Call Ledger of Personal Loans* (see Appendix 5), and send the materials to Party A after completion. Party A shall randomly check on the follow-up of Party C.

Party C's inspectors shall check the borrower and its loan information according to the system information, including but not limited to the following aspects:

1. Check the name and confirm whether the loan is applied for by the borrower himself;
2. Check the products purchased and confirm whether the loan purpose is consistent with the credit purpose;
3. Check the information of the borrower, and confirm the occupation, income, repayment intent of the borrower.

Article LVII. Party A shall conduct a spot check on the archives kept by Party C at the beginning of each quarter (the list shall be provided by Party A), and fill in the *Spot Check Record of Batch Cluster Loan Archives* (see Appendix 6).

Article LVIII. Party A shall monitor this consumer loan on a monthly basis, track, analyze and assess the asset quality of the business, and pay special attention to the following two situations:

1. Whether to touch the warning line agreed in this Agreement. When the refund rate of financial leasing loan of the project (refund rate of financial leasing loan = full refund amount / (loan balance + full refund amount) reaches [REDACTED]%, it is the warning line of the project. In case of touching the warning line, Party A shall issue a risk alert, make an appointment with Party B, analyze the cause of default risk, and increase the monitoring frequency to once a week.

2. Whether to touch the cooperation suspension line agreed in this Agreement. When the refund rate of financial leasing loan of the project reaches [REDACTED]%, the acceptance of new business shall be suspended. In case of touching the cooperation suspension line, Party A shall issue a risk alert, make an appointment with Party B, suspend relevant new business and deal with the aftermath according to the cooperation agreement. If the refund rate of financial leasing loan drops to below [REDACTED]% after the suspension of business, Party A, Party B and Party C may re-open business cooperation after assessing the overall risk of the project.

Chapter XI Loan Collection

Article LIX. Party A shall entrust Party C to collect the loan, and Party C shall formulate different collection strategies and implementation rules according to the overdue days of the loan. Collection methods include but are not limited to collection via SMS, collection via telephone, door-to-door home visit, mandatory vehicle recovery and vehicle disposal and realization. Party C shall urge retail customers to repay the loan in time, and keep abreast of the changes in the economic capability, repayment willingness and credit status of retail customers in time.

Article LX. Party C shall provide Party A with the overdue collection report under this consumer loan on a quarterly basis, and feedback the collection effect (such as overdue rate and roll rate) and introduction to the collection, and Party A shall evaluate it.

Chapter XII Settlement of Expenses

Article LXI. Party A shall collect interest, penalty interest and relevant fees for each consumer loan according to the provisions of the loan contract.

Article LXII. As Party C provides Party A with financial consulting management services, Party A shall pay Party C the cooperation management remuneration. Once the principal of this consumer loan is issued in accordance with the loan contract, Party C shall have the right to obtain cooperation management remuneration under this clause. Party C shall issue relevant special VAT invoices to Party A. (See Appendix 7 for specific payment methods and procedures)

Article LXIII. Party A shall pay Party C the cooperation management remuneration according to the following charging standard formula: cooperation management remuneration = total interest actually deducted in the previous month at the interest rate in the loan contract - total interest calculated in the previous month at the annualized interest rate of [REDACTED]%.

Chapter XIII Cooperation Commitment

Article LXIV. Party A, Party B and Party C are equal subjects of civil rights and obligations, and the three parties shall jointly manage each loan. If the other two parties suffer direct losses due to the fault of one party, the losing party shall have the right to claim compensation from the defaulting party who shall bear a certain proportion of liability for damages according to the degree of fault.

Article LXV. Party B and Party C shall timely, accurately and completely transmit to Party A the relevant information and data under the project, including but not limited to the loan application materials and repayment information, as well as handle other loan-related matters as instructed by Party A.

Article LXVI. During the term of performance of this Agreement, Party B and Party C shall manage the underlying credit assets under this project in accordance with their generally applicable credit management procedures and the terms and requirements of applicable laws, and cooperate with Party A in reviewing and auditing the credit assets granted by Party A.

Article LXVII. For each personal consumer loan, the cooperative relationship between Party A, Party B and Party C shall take effect from the time of granting each loan to the time when the loan is settled. Unless agreed by the three parties in writing, such cooperative relationship shall not be terminated in advance. If the loan has not been settled upon expiration of the term of this Agreement, the cooperative relationship under this loan shall be terminated upon settlement of loan.

Article LXVIII. Party A, Party B and Party C agree that the information and data related to the approval, granting, repayment and risk control of this personal consumer loan shall be timely delivered to the other party through the electronic data interchange system jointly established by the three parties. The three parties shall jointly formulate the format of application data list, sending and receiving methods and data review rules and methods required by retail customers under this project. After the three parties reach an agreement on the format of application data list, sending and receiving methods and data review rules and methods, any party shall not amend at will without the written consent of three parties.

Article LXIX. Party A, Party B and Party C shall ensure that the information is released in the form of communication and negotiation in advance.

Article LXX. Party A, Party B and Party C shall be obligated to keep confidential the business secrets and customer information of any party during the business cooperation, except for the cooperation required by laws, regulations and competent authorities.

Article LXXI. The three parties shall separately reach an agreement on and implement the handling mechanism in case of system abnormality or inconsistency of data between the two parties.

Article LXXII. Party A, Party B and Party C shall discuss the control scope, transmission mode and use scope of information security together during the information sharing process, and shall not provide corresponding shared information to the fourth party.

Chapter XIV Liability for Breach of Contract

Article LXXIII. After this Agreement takes effect, in case of the following circumstances to any party, the other two parties shall have the right to identify its breach and require it to bear the compensation liability arising from its breach:

1. In case of non-performance or non-full performance or violation of the obligations agreed upon in this Agreement, it shall bear corresponding liability for breach of contract and compensate for the losses caused to the other party;

Article LXXIV. After this Agreement takes effect, if any of the following circumstances occurs to any party, both parties may negotiate whether to change or terminate this Contract:

1. Any other material adverse changes occur due to its own status, which has affected or may affect its ability to perform various obligations under this Agreement;
2. Closing of business;
3. Being dissolved, suspended for rectification, revoked of business license or cancelled.

Article LXXV. If the enactment or change of any law or regulation or any change in the interpretation or application thereof has shown or will show that the performance by any party of its obligations under this Agreement is unlawful so that this Agreement may not be performed, Party A, Party B and Party C shall communicate in a timely manner, adjust the cooperation model, and the three parties shall not bear any liability for breach of contract.

Chapter XV Dispute Resolution

Article LXXVI. If any dispute arising from the performance of this Agreement cannot be settled through negotiation, such dispute shall be submitted to the People's Court of Shanghai Pudong New District for litigation.

Chapter XVI Information Exchange

Article LXXVII. Any notice, request or other communication given or made under this Agreement shall be delivered in the written form (including registered mail, courier, fax, electronic data interchange system, e-mail). For any notice delivered by registered mail or courier, the delivery date shall be the date of receipt by the recipient; by fax, the delivery date shall be the date when the sender send a complete fax report; by electronic data interchange system, the time of entry of electronic data into the system shall be deemed as the arrival time; by e-mail, the delivery date shall be the date on which the recipient receives it.

Article LXXVIII. The communication information of the three parties shall be separately agreed upon. If it is necessary to change the relevant communication information, the changing party shall notify the other two parties in writing 15 workdays in advance. Otherwise, the other two parties shall have the right to continue to notify the other party according to the original contact person and contact information, and the changing party shall be liable for all consequences caused thereby.

Article LXXIX. The respective contacts of the parties are confirmed as follows:

<u>Partnerships</u>	<u>Name</u>	<u>Address:</u>	<u>Tel.</u>	<u>Mobile</u>	<u>E-mail</u>
Party A	Du Haiyan	2/F, Bank of Shanghai, No. 369 Fuxing Middle Road	[REDACTED]	[REDACTED]	[REDACTED]
	Cao Sanmei	2/F, Bank of Shanghai, No. 369 Fuxing Middle Road	[REDACTED]	[REDACTED]	[REDACTED]
	He Wei	2/F, Bank of Shanghai, No. 369 Fuxing Middle Road	[REDACTED]	[REDACTED]	[REDACTED]
	Song Zhipeng	16/F, Building 2, Youyou Century Square, No. 428 Yanggao South Road	[REDACTED]	[REDACTED]	[REDACTED]
Party B	Ni Cheng	19/F, Building 2, Youyou Century Square, No. 428 Yanggao South Road	[REDACTED]	[REDACTED]	[REDACTED]
	Yan Min	16/F, Building 2, Youyou Century Square, No. 428 Yanggao South Road	[REDACTED]	[REDACTED]	[REDACTED]

The application scope of the aforesaid address for service includes the non-litigation stage and the first instance, second instance, retrial and execution procedure after the dispute enters the litigation procedure.

Chapter XVII Effectiveness, Alteration, Rescission and Termination

Article LXXX. This Agreement shall come into effect after being signed by the legal representatives (responsible persons) or authorized representatives of the three parties and affixed with the Company's seals.

Article LXXXI. In case of any discrepancy between this Agreement and any prior agreements signed by the three parties with respect to the business cooperation, this Agreement shall prevail.

Article LXXXII. The term of cooperation under this Agreement shall be from on [], 2018 to December 31, 2019. If any party fails to raise any objection to the other two parties within 90 days prior to the expiration of the term of cooperation, the term of cooperation under this Agreement shall be automatically extended by 3 years. Upon the expiration of the extended term of cooperation, the automatic renewal rules shall still be implemented in accordance with the above-mentioned provisions, with no limit on the number of times.

Article LXXXIII. During the term of this Agreement, the three parties shall have the right to terminate this Agreement in written notice to the other two parties (90) days in advance. This Agreement is terminated with the written consent of the three parties, provided that the termination of this Agreement shall not relieve any party of its obligations and liabilities to the other two parties under this Agreement.

Article LXXXIV. If the effectiveness or legality of the cooperation is involved due to changes in laws and regulations or policies of government regulatory authorities, the three parties have the right to terminate the cooperation and this Agreement immediately.

Chapter XVIII Supplementary Provisions

Article LXXXV. This Agreement shall be written in Chinese in [six] copies, with each party holding [two] copies and each copy having the same legal effect.

Article LXXXVI. The appendixes under this Agreement shall be an integral part and have the same legal effect. The contents in the appendixes can be adjusted according to the subsequent business operation (see Appendix 8 for details).

Article LXXXVII. After this Agreement comes into effect, the *Cooperation Agreement on Personal Consumer Loan between Bank of Shanghai and Shanghai Chejia* (contract No.:) signed by Party A, Party B and Party C in April 2018 shall be annulled at the same time, and the business during the period shall not become invalid.

(No text below)

(Signature page below without text)

Party A (seal)

[Puxi Branch of Bank of Shanghai Co., Ltd.]

Responsible person or authorized representative: [Wang Ming] (seal)

Date of Signing: July 31, 2018

Party C (seal)

[Shanghai Cango Investment and Management Consultation Service Co., Ltd.]

Responsible person or authorized representative: [Zhang Xiaojun] (seal)

Date of Signing: July 31, 2018

Party B (Seal):

[Shanghai Chejia Financing Lease Co., Ltd.]

Responsible person or authorized representative: [Zhang Xiaojun] (seal)

Date of Signing: July 31, 2018

LIST OF SUBSIDIARIES AND CONSOLIDATED VARIABLE INTEREST ENTITY OF

CANGO INC.

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>
Cango Group Limited	Hong Kong
Express Group Development Limited 捷联发展有限公司	Hong Kong
Can Gu Long (Shanghai) Information Technology Consultation Service Co., Ltd.* 灿谷隆 (上海) 信息科技有限公司咨询服务有限公司	PRC
<u>Consolidated Variable Interest Entity ("VIE")</u>	<u>Jurisdiction of Incorporation</u>
Shanghai Cango Investment and Management Consulting Service Co., Ltd.* 上海灿谷投资管理咨询服务有限公司	PRC
<u>Subsidiaries of the Consolidated VIE</u>	<u>Jurisdiction of Incorporation</u>
Cango Financing Guarantee Co., Ltd.* 灿谷融资担保有限公司	PRC
Beijing Cango Automotive Consulting Service Co., Ltd.* 北京灿谷汽车咨询服务有限公司	PRC
Guangzhou Cango Automotive Information Consultation Service Co., Ltd.* 广州灿谷汽车信息咨询服务有限公司	PRC
Shanghai Wangjin Financial Information Service Co., Ltd.* 上海网金融信息服务有限公司	PRC
Shanghai Cango Electronic Technology Co., Ltd.* 上海灿谷电子科技有限公司	PRC
Shanghai Cango Automobile Sales Service Co., Ltd.* 上海灿谷汽车销售服务有限公司	PRC
Shanghai Wangtian Investment Co., Ltd.* 上海网天投资有限公司	PRC
Shenyang Cango Automotive Information Consultation Co., Ltd.* 沈阳灿谷汽车信息咨询有限公司	PRC
Jiangsu Tongyuan Automotive Consulting Service Co., Ltd.* 江苏通元汽车咨询服务有限公司	PRC
Nanjing Canyuan Automotive Service Co., Ltd.* 南京灿元汽车服务有限公司	PRC
Hubei Huaitai Automotive Consulting Service Co., Ltd.* 湖北省怀泰汽车咨询服务有限公司	PRC
Chengdu Cango Automotive Service Co., Ltd.* 成都灿谷汽车服务有限公司	PRC
Xi'an Cango Automotive Consulting Service Co., Ltd.* 西安灿谷汽车咨询服务有限公司	PRC
Shanxi Huirui Automotive Consulting Service Co., Ltd.* 山西汇瑞汽车咨询服务有限公司	PRC
Henan Cango Automotive Service Co., Ltd.* 河南灿谷汽车服务有限公司	PRC
Shandong Huaitong Automotive Consulting Service Co., Ltd.* 山东怀通汽车咨询服务有限公司	PRC
Hefei Cango Automotive Service Co., Ltd.* 合肥灿谷汽车服务有限公司	PRC
Fujian Changhui Automotive Service Co., Ltd.* 福建昌汇汽车服务有限公司	PRC
Changsha Cango Automotive Service Co., Ltd.* 长沙灿谷汽车服务有限公司	PRC
Guangxi Canyuan Automotive Consulting Service Co., Ltd.* 广西灿源汽车咨询服务有限公司	PRC
Guangxi Nanning Cango Automotive Consulting Service Co., Ltd.* 广西南宁灿谷汽车咨询服务有限公司	PRC
Jiangxi Cango Automotive Consulting Service Co., Ltd.* 江西灿谷汽车咨询服务有限公司	PRC
Guizhou Cango Automotive Service Co., Ltd.* 贵州灿谷汽车服务有限公司	PRC
Kunming Cango Automotive Information Consultation Service Co., Ltd.* 昆明灿谷汽车信息咨询服务有限公司	PRC
Shanghai Autohome Financing Lease Co., Ltd.* 上海有车有家融资租赁有限公司	PRC
Jilin Cango Automotive Information Consulting Service Co., Ltd.* 吉林灿谷汽车信息咨询有限公司	PRC
Nei Mongol Cango Automotive Service Co., Ltd.* 内蒙古灿谷汽车服务有限公司	PRC
Gansu Cango Automotive Information Consulting Co., Ltd.* 甘肃灿谷汽车信息咨询有限公司	PRC
Nantong Cango Automotive Information Consulting Service Co., Ltd.* 南通灿谷汽车信息咨询服务有限公司	PRC
Changzhou Autohome Automotive Leasing Service Co., Ltd.* 常州有车有家汽车租赁服务有限公司	PRC
Shanghai Autohome Financing Lease Co., Ltd. Fuzhou Branch* 上海有车有家融资租赁有限公司福州分公司	PRC

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>
Shanghai Autohome Financing Lease Co., Ltd. Dongguan Branch* 上海有车有家融资租赁有限公司东莞分公司	PRC
Shanghai Autohome Financing Lease Co., Ltd. Foshan Branch* 上海有车有家融资租赁有限公司佛山分公司	PRC
Shanghai Autohome Financing Lease Co., Ltd. Hangzhou Branch* 上海有车有家融资租赁有限公司杭州分公司	PRC
Wuxi Autohome Automotive Leasing Service Co., Ltd.* 无锡有车有家汽车租赁服务有限公司	PRC
Guangzhou Autohome Automotive Leasing Service Co., Ltd.* 广州好车好家汽车租赁服务有限公司	PRC
Suzhou Autohome Automotive Leasing Service Co., Ltd.* 苏州有车有家汽车租赁服务有限公司	PRC
Guiyang Autohome Automotive Leasing Service Co., Ltd.* 贵阳有车有家汽车租赁服务有限公司	PRC
Changsha Autohome Automotive Leasing Service Co., Ltd.* 长沙有车有家汽车租赁服务有限公司	PRC
Chengdu Autohome Automotive Leasing Service Co., Ltd.* 成都好车好家汽车租赁服务有限公司	PRC
Huizhou Autohome Automotive Leasing Service Co., Ltd.* 惠州好车好家汽车租赁服务有限公司	PRC
Xi'an Autohome Automotive Leasing Service Co., Ltd.* 西安好车好家汽车租赁服务有限公司	PRC
Wenzhou Autohome Automotive Leasing Service Co., Ltd.* 温州有车有家汽车租赁服务有限公司	PRC
Zhongshan Autohome Automotive Leasing Service Co., Ltd.* 中山好车好家汽车租赁服务有限公司	PRC
Henan Autohome Automotive Leasing Service Co., Ltd.* 河南有车有家汽车租赁服务有限公司	PRC
Weifang Autohome Automotive Leasing Service Co., Ltd.* 潍坊有车有家汽车租赁服务有限公司	PRC
Tianjin Autohome Automotive Leasing Service Co., Ltd.* 天津有车有家汽车租赁服务有限公司	PRC
Shenzhen Autohome Automotive Leasing Service Co., Ltd.* 深圳好车好家汽车租赁服务有限公司	PRC
Shaoxing Autohome Automotive Leasing Service Co., Ltd.* 绍兴有车有家汽车租赁服务有限公司	PRC
Qingdao Autohome Automotive Leasing Service Co., Ltd.* 青岛有车有家汽车租赁服务有限公司	PRC
Ningbo Autohome Automotive Leasing Service Co., Ltd.* 宁波有车有家汽车租赁服务有限公司	PRC
Jinhua Autohome Automotive Leasing Service Co., Ltd.* 金华有车有家汽车租赁服务有限公司	PRC
Jiaxing Autohome Automotive Leasing Service Co., Ltd.* 嘉兴有车有家汽车租赁服务有限公司	PRC
Nantong Autohome Automotive Leasing Service Co., Ltd.* 南通有车有家汽车租赁服务有限公司	PRC
Nanjing Autohome Automotive Leasing Service Co., Ltd.* 南京好车好家汽车租赁服务有限公司	PRC
Kunming Autohome Automotive Leasing Service Co., Ltd.* 昆明有车有家汽车租赁服务有限公司	PRC
Jinan Autohome Automotive Leasing Service Co., Ltd.* 济南有车有家汽车租赁服务有限公司	PRC
Hefei Autohome Automotive Leasing Service Co., Ltd.* 合肥有车有家汽车租赁服务有限公司	PRC
Wuhan Cango Automotive Leasing Service Co., Ltd.* 武汉灿谷汽车租赁服务有限公司	PRC
Chongqing Canyuan Automotive Leasing Service Co., Ltd.* 重庆灿元汽车租赁服务有限公司	PRC
Qinghai Cango Automobile Sales Service Co., Ltd.* 青海灿谷汽车销售服务有限公司	PRC
Dalian Autohome Automotive Leasing Service Co., Ltd.* 大连有车有家汽车租赁服务有限公司	PRC
Fushun Insurance Broker Co., Ltd. Hunan Branch* 福顺保险经纪有限公司湖南分公司	PRC
Fushun Insurance Broker Co., Ltd. Gansu Branch* 福顺保险经纪有限公司甘肃分公司	PRC
Fushun Insurance Broker Co., Ltd. Guangdong Branch* 福顺保险经纪有限公司广东分公司	PRC
Fushun Insurance Broker Co., Ltd. Jiangsu Branch* 福顺保险经纪有限公司江苏分公司	PRC
Fushun Insurance Broker Co., Ltd. Shaanxi Branch* 福顺保险经纪有限公司陕西分公司	PRC
Fushun Insurance Broker Co., Ltd. Henan Branch* 福顺保险经纪有限公司河南分公司	PRC

* The English name of this subsidiary, consolidated VIE or subsidiary of consolidated VIE, as applicable, has been translated from its Chinese name.

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

I, Jiayuan Lin, certify that:

1. I have reviewed this annual report on Form 20-F of Cango Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 27, 2021

By: /s/ Jiayuan Lin

Name: Jiayuan Lin

Title: Director and Chief Executive Officer

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

I, Yongyi Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of Cango Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 27, 2021

By: /s/ Yongyi Zhang

Name: Yongyi Zhang

Title: Director and Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Cango Inc. (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jiayuan Lin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2021

By: /s/ Jiayuan Lin

Name: Jiayuan Lin

Title: Director and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Cango Inc. (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yongyi Zhang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2021

By: /s/ Yongyi Zhang
Name: Yongyi Zhang
Title: Director and Chief Financial Officer

方達律師事務所

FANGDA PARTNERS

香港 Hong Kong: 上海 Shanghai: 北京 Beijing: 深圳 Shenzhen 广州 Guangzhou

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Beijing 100020, PRC

Cango Inc.

10A, Building 3, Youyou Century Plaza
428 South Yanggao Road, Pudong New Area
Shanghai 200127
People's Republic of China

April 27, 2021

Dear Sirs,

We consent to the references to our firm under “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to our consolidated VIE 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” and “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements among Can Gu Long, Shanghai Cango and Its Shareholders”, in Cango Inc.’s Annual Report on Form 20-F for the year ended December 31, 2020 (the “Annual Report”), which is filed with the Securities and Exchange Commission (the “SEC”) on the date hereof. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Fangda Partners

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-238454) pertaining to the Share Incentive Plan 2018 of Cango Inc. of our report dated April 27, 2021, with respect to the consolidated financial statements of Cango Inc. included in this Annual Report (Form 20-F) for the year ended December 31, 2020.

/s/ Ernst & Young Hua Ming LLP

Shanghai, The People's Republic of China

April 27, 2021